

Fondazione Luigi Einaudi

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Studi

36

# «FROM OUR ITALIAN CORRESPONDENT»

LUIGI EINAUDI'S  
ARTICLES IN *THE ECONOMIST*, 1908-1946

Edited by  
ROBERTO MARCHIONATTI

I  
1908-1924



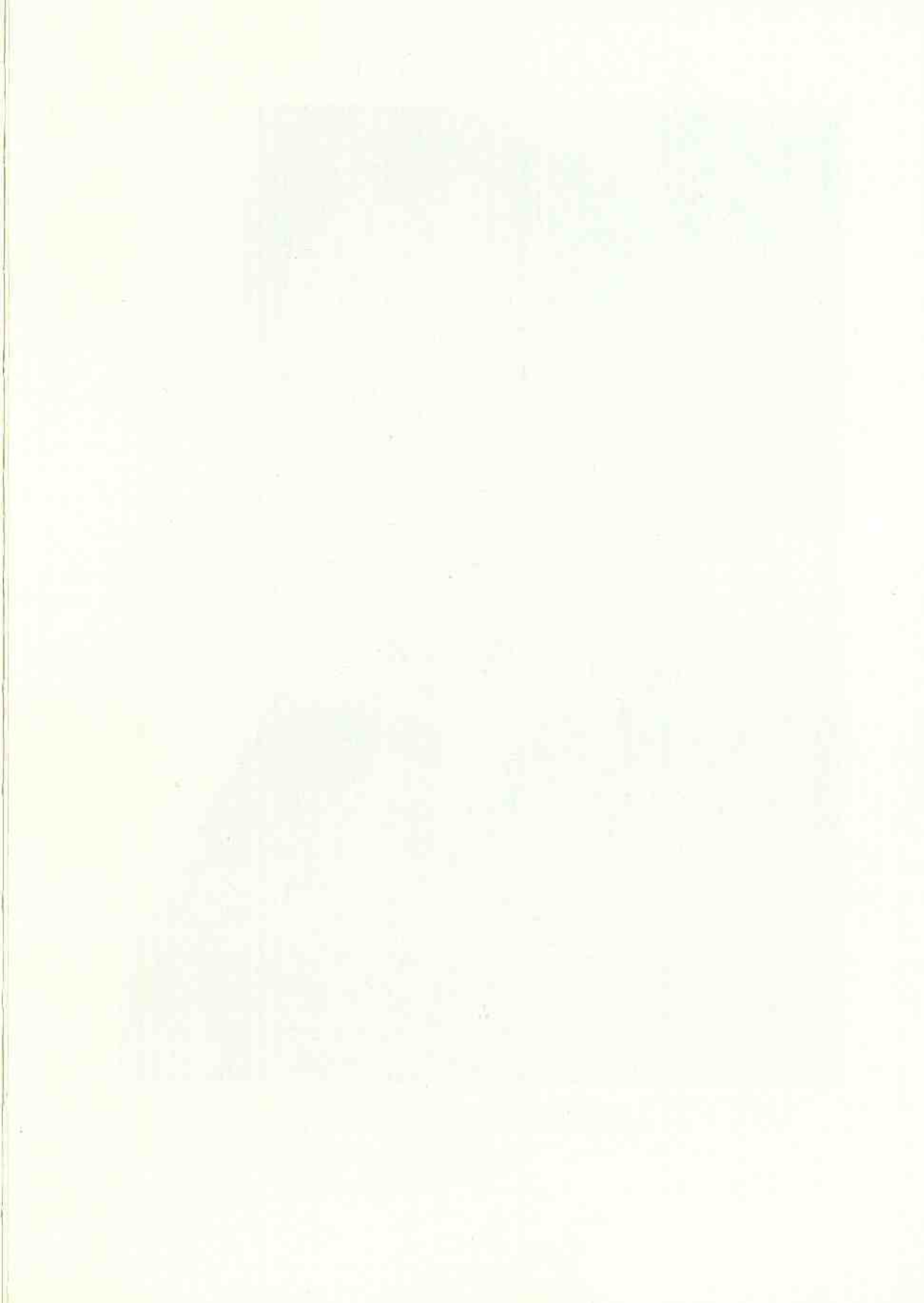
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LUIGI EINAUDI, 1948 (Einaudi Archives).

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ROBERTO MARCHIONATTI

## INTRODUCTION

"The Economist is conscious of enjoying a little reflected glory from your achievements; it will always be proud of the fact that the man who was its Italian Correspondent for so long was President of Italy..."

Walter T. Layton, to Luigi Einaudi, May 2, 1955

### 1. EINAUDI AND *THE ECONOMIST*

Luigi Einaudi's thirty-year contribution to the prestigious English weekly newspaper *The Economist*, which until now had remained only partially identified, undoubtedly represents an important part of his prodigious activity as a journalist. In fact it may be said that after November 1925, when Fascist censorship prevented him from publishing in Italy, Einaudi's articles for *The Economist* became a major outlet for his views on current events. When the partnership between Einaudi and the newspaper began, in the first decade of the twentieth century, *The Economist* was an influential example of the great independent English press, an expression of that classical liberalism of the eighteenth and nineteenth centuries, which was also an essential component of Einaudi's own liberal vision.<sup>1</sup> Founded in 1843 to campaign against the Corn Laws,<sup>2</sup> *The Economist* was originally a means of po-

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<sup>1</sup> Einaudi was certainly influenced in his beliefs by his self-conscious Anglophilia; as an example, it is sufficient to quote from a well-known article published in 1916 in *La Riforma Sociale*: "We were among the few to worship Great Britain..., English ideas and its way of reasoning and conceiving life, freedom and politics" ("Germanofili ed anglofili", *La Riforma Sociale*, XXIII, 1916, p. 300). The most important writings by Einaudi on liberalism are collected in: BENEDETTO CROCE - LUIGI EINAUDI, *Liberismo e liberalismo* (edited by Paolo Solari), Milano, Ricciardi, 1957. On Einaudi's liberalism see: L. EINAUDI, *Memorandum* (edited by G. Berta) with an essay by Norberto Bobbio, Venezia, Marsilio, 1994; F. FORTE, *Luigi Einaudi: Il Mercato e il Buongoverno*, Torino, Einaudi, 1982; P. GOBETTI, "Il liberalismo di Luigi Einaudi", in *La Rivoluzione Liberale*, I, 1922, p. 37-38, now in *Scritti Politici* (edited by P. Spriano), Torino, Einaudi, 1969; G. MARONGIU, *Luigi Einaudi*, Genova, ECIG, 1993.

<sup>2</sup> On the history of *The Economist* see: *The Economist 1843-1943. A Centenary Volume*,

litical propaganda for the ideology and principles of free trade, a champion of absolute economic individualism and opponent of public intervention in the economy. From 1861, under the editorship of Walter Bagehot – author of the famous *Lombard Street*, which Einaudi himself translated into Italian in 1905<sup>3</sup> – *The Economist* went on to become a fundamental source of analysis of English and international political and business life, as well as a focus for critical reflection on the English liberal ruling class. And for such a newspaper, Luigi Einaudi was, as *The Economist's* own obituary of him said, “surely the most distinguished of all foreign correspondents” (*The Economist*, November 4, 1961).

Luigi Einaudi's name first appears in the pages of *The Economist* on March 21, 1908, in a “Letter to the Editor”, dated “Turin, March 9, 1908”, on Italian finance. In 1908, the thirty-four-year-old Einaudi was already well known in Italy as a scholar and journalist: he was Professor of Public Finance in the Faculty of Law at both the University of Turin and the Bocconi University of Milan, and had published important works on public finance and economic history. He was also co-editor of *La Riforma Sociale*, a liberal-leaning research journal on the problems of Italian society, founded in 1894 by Francesco Saverio Nitti and Luigi Roux on the model of *The Economic Journal* – and of which he was to become editor-in-chief a few years later. As a journalist, he was an important contributor to *Il Corriere della Sera*, after having written for *La Stampa* from 1896 to 1902.<sup>4</sup> From 1908 to the beginning of 1920, Einaudi's contributions to *The Economist* were quite frequent although somewhat irregular. In these years he was only one of the newspaper's correspondents from Italy, together with English journalists and other important representatives of Italian intellectual and political life. The latter included Edoardo Giretti, industrialist and major exponent of liberal political journalism, and Luigi Luzzatti, Treasury Minister in both the Giolitti and Sonnino governments, Prime Minister himself from March 1910 to March 1911, and also a contributor to *Il Corriere della Sera*. However, very soon Einaudi certainly became the

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London, Oxford University Press, 1943; R. D. EDWARDS, *The Pursuit of Reason: The Economist 1843-1993*, London, H. Hamilton, 1993. G. BERTA, *Capitali in gioco. Cultura economica e vita finanziaria nella City di fine Ottocento*, Venezia, Marsilio, 1990.

<sup>3</sup> *Lombard Street*, in Einaudi's translation, was published in the fourth series of the “Biblioteca dell'Economista”, Turin, Unione Tipografico-Editrice Torinese. It was reprinted in 1986 in the “Saggi di Economia” series published by Cassa di Risparmio di Torino.

<sup>4</sup> Einaudi's Italian-language articles are collected in *Cronache economiche e politiche di un trentennio (1893-1925)*, volumes I-VIII, Torino, Einaudi, 1959-1965.



most important, if not in fact the only, Italian correspondent of *The Economist*. This was most likely due to his unrivalled capacity to satisfy the standards and expectations of the English newspaper: accurate analysis of the facts, the use of a great amount of data, well-founded argumentation, and the appropriate reserve with regard to personal political convictions.

In April 1920, the editor of *The Economist*, Hartley Withers, wrote to Einaudi with an offer of a permanent contribution. Einaudi accepted and went on to write regularly for the newspaper until the beginning of the nineteen-forties. In 1931, Walter T. Layton,<sup>5</sup> editor of *The Economist* from 1922 to 1938, asked Einaudi to send letters twice monthly "to reach us on the first and third Thursday of each month", adding: "if, however, in the interval between your letters, any event of outstanding importance should occur which, in your opinion, merits immediate notice in our columns, perhaps you would be good enough to send a short note covering that particular item of news" (letter of November 6, 1931, in Einaudi Archives). Actually it appears that Einaudi seldom adhered to these requirements, though in any case not all of the articles he wrote were published. Between 1920 and 1935 he appears to have published more than 220 articles for *The Economist*, an average of around 14 a year. Einaudi contributed to several sections of the newspaper, principally "Overseas Correspondence", but also the "Monthly Supplement" and the annual "Commercial History & Review". Einaudi's name appears for the last time on August 17, 1946, in a "Letter to the Editor" signed as the Governor of the Bank of Italy and "for many years Turin correspondent of *The Economist*".

On Einaudi's contribution to *The Economist*, Riccardo Faucci, in his biography of this 'great Italian liberal', writes: "The tenor of this correspondence is descriptive. Critical comments are sober and controlled. However it cannot be said that it was an anonymous routine work".<sup>6</sup> In fact, it seems to have been anything but anonymous or routine. Einaudi chronicled the economic, financial and political events of Italy, from the government of Giolitti to the Fascist regime, with a clear task in mind: to present those events in a way accessible to English readers, particularly those involved in the world of econ-

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<sup>5</sup> Walter T. Layton, a brilliant Cambridge economist, was an important member of the small but very influential group of radical liberals (together with John Maynard Keynes, Hubert Henderson, Dennis Robertson, Josiah Charles Stamp and William Beveridge) which dominated English intellectual and academic life between the two wars (see: DAVID HUBBACK, *No Ordinary Press Baron: A Life of Walter Layton*, London, Weidenfeld & Nicolson, 1985).

<sup>6</sup> FAUCCI R., *Luigi Einaudi*, Torino, Utet, 1986, p. 263.

omy and finance who represented the most influential part of the newspaper's readership. But, more than this, Einaudi also critically analysed the actions of the protagonists in the Italian economic and political arena from a theoretical and moral standpoint; a standpoint which most readers of *The Economist* shared. Even when the freedom to express his judgement was severely restricted, in the Fascist era, Einaudi still made his opinion clear in controlled critical comments. This introduction offers a survey of this rich and important contribution.

## 2. THE FIRST PHASE OF EINAUDI'S CONTRIBUTION: FROM 1908 TO THE FIRST WORLD WAR

### 2.1. *The pre-war period: the analysis of the economic situation in Italy and the criticism of the Giolitti governments*

Einaudi's contribution to *The Economist* began in March 1908, in the middle of the Giolitti era, during the economic crisis which had exploded in the summer and autumn of the year before. A crisis which brought economic growth to a standstill and highlighted the weak points of the Italian industrial development begun in the last years of the nineteenth century. Originating in the financial markets of the United States, the crisis quickly spread to European countries. Although the economically strongest countries were soon able to rediscover the path of rapid growth, the crisis severely damaged the Italian economy. A consciousness of the difficulties of the Italian situation, in the years immediately after the crisis, was a distinctive feature of Einaudi's contribution. His first letter to the editor on March 21, 1908, was in fact a criticism of a previous anonymous article, dated March 7 and entitled "Relief for Italian Taxpayers", which optimistically described the state of Italian public finance and foresaw a reduction in taxes. Einaudi maintained that: "it is not correct to consider as certain a reduction of taxation", because "the surpluses of the last years have been swallowed by the increased expenditure" – meaning public works, public servant salary increases and national defence or, as he saw it, "in the main squandered to satisfy petty interests".

In his first articles in the pre-war period, Einaudi gave a decidedly different and much more problematical picture of Italian public finance and economic development than Luigi Luzzatti, whose articles in *The Economist*<sup>7</sup>

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<sup>7</sup> "Luzzatti on Italian Finance", *The Economist*, August 22, 1908, p. 353, and "Italian Finance", *The Economist*, September 19, 1908, p. 518.

proudly presented a robust and lively national economy. Einaudi's articles from 1908 to 1914 – of which thirty are either certain or highly probable, testifying to an already quite significant correspondence – offered a stark portrayal of Italy: a country which had renounced its Cavourian liberal principles and was ruled by a political class that was corrupt and in decline; a country financially unstable because of crippling public debt, distorted in its development by an economic policy of agricultural and industrial protectionism, and struggling to adjust because of over-investment in protected industries. The focal point of Einaudi's analysis is the issue of public finance: "We are at a turning point in the financial history of the country", he wrote on January 23, 1908, presenting a dramatic picture of the previous two decades. The years from 1890 to 1898, he argued, were among the worst in Italian national finance because of the Abyssinian War, the banking crisis, the protectionist tariff, the riots in Sicily, the southern provinces and Milan; all of which exercised "a sinister influence on the state budget" – the surpluses were few and small and the deficits great. However, he continues, the adoption of a policy of parsimony and the curtailment of expenses, together with great progress in agriculture and industry, reacted favourably on the state budget and the years following saw notable surpluses.

Einaudi emphasized that during this period the country's economic growth was not limited by the deficit of its foreign trade. After the introduction of a wheat duty in 1894, unable to cover its own internal requirements, Italy had been obliged to import huge quantities of wheat and flour, and thus, wrote Einaudi, "a conspicuous feature in the external trade of Italy during the last 20 years has been a constant and increasing excess of the imports over exports" (May 14, 1910). In spite of this fact, "the rate of exchange has scarcely reached the gold point, and has been for nearly the whole time not against but for Italy" (ibid). What helped Italian consumers to pay for the surplus of imported merchandise were the remittances of Italian emigrants, particularly those who had settled in South and North America. Emigration, Einaudi argued, was not simply the result of the fact that Italy was a country of high birth-rate, thus having a natural tendency to emigration, but also because of the protectionist policy in agriculture which "has proved strongly against the interests of the great mass of agriculturists, and only profitable to a little combined band of landlords and privileged manufacturers", and moreover "has reacted against any progress of agriculture" (ibid).

The protectionist policy in agriculture and industry was a major issue in Einaudi's articles in both *The Economist* and *Il Corriere della Sera*. Einaudi did not hesitate to speak of the "scandalous protection" of these sectors,



which received government favours. These special interests included mining, iron and steel manufacturing, shipbuilding and engineering, as well as the companies managing the state railways and the shipping connections with the islands and other continents. Analysing both a bill which proposed to continue "the evil system of shipping bounties to Italian shipyards and shipowners" and the efforts made by the interested parties to secure regulations "which will shut off foreign competition in the transportation of Italian emigrants from and to Italian ports, and of coal" – a matter of great importance to British shipowners – Einaudi wrote:

The navigation bounties are apparently given to foster the mercantile marine, but in reality will be entirely transferred from shipowners to the shipyards in the shape of an increased price for ships launched in Italy. Owing to the protectionist system the bounties will have to be divided between the shipyards and the iron and steel manufacturers, machinery makers, and naval engineers, who furnish the highly protected materials for shipbuilding. All these interests have constituted a potent, tariff-nursed trust, generally known as the 'gruppo siderurgico'. (October 16, 1909)

The cotton industry, too, enjoyed high protection. In Einaudi's words, it represented "a striking instance of the ... mischief of protection to the economical development of Italy and her trade" (February 4, 1911). It had been highly favoured by the Tariff Reform Act of 1887: "capital was attracted into the industry by the prospect of inflated profits, old plants were extended and improved. A great many new concerns were started" (ibid). But home consumption did not increase in proportion to the increased production, and the Italian cotton manufacturers were faced with the necessity of finding an outlet for this regular surplus of production: "as a matter of fact", Einaudi continued, "the export trade has been carried on at prices which do not cover the high cost of the protected production". When the crisis occurred, Italian exports became "more and more unremunerative" (ibid). He concluded that: "protection has caused over-production, increased prices for Italians, reduced purchasing power, and a ruinous export trade at unprofitable rates" (ibid). In the years after 1897-8, protectionist policy had gone along with the continuous increase in public expenditure, which brought about the progressive diminution of surpluses. Hence

the equilibrium of the budget... is maintained only through this source of revenue: ...the burdens placed on the Italian people by the excessive duty which the government retains on imported flour and corn. (December 19, 1908)



After the 1907 crisis Einaudi believed that "the epoch of great surpluses has come to an end" and that "our Governors must exercise great caution if the delicate fabric of our national credit is not to be shaken" (ibid). The question was how to recover the path of stable economic growth:

The crucial economic problem of the moment seems to be the elimination of the consequences of past over-investment and the freedom to be given to labour and capital to invest in industries natural to our country. (ibid)

The correct answer, Einaudi wrote in a letter to the editor on September 27, 1913, was not "the old protectionist method, which claims State aid to suffering industries, and higher and more scientific protection to promising branches of industry and agriculture", but:

the new free trade method – which is a revival of the older Cavourian system – which insists on the necessity of freeing the numerous branches of Italian industry and agriculture, whose productivity is high and naturally rising, and which are capable of utilising the great capabilities of our intelligent, able, skilful working people, from the chains of high prices of raw materials and food.

In the pre-war years of his contribution to *The Economist*, Einaudi also criticized the political system in power in Italy, on the occasion of the Tripoli Expedition of 1911. In October and November of that year Einaudi wrote to *The Economist*, signing himself "Italicus", in order to explain to English readers "the raid of Tripoli".<sup>8</sup> After underlining the huge economic cost of the war and the negative welfare effect on the country, he described an effectively negative political situation, characterised above all by the parliamentary dictatorship of Giolitti. Einaudi called Giolitti "the real master of Italy" though certainly no "great statesman" and "not a man of strong convictions"; "a white-haired man of seventy... very fond of power" who dispensed great and petty favours in order to control parliament:

Signor Giolitti is... not the man to be embarrassed by differences of opinion. To the Radicals he gave some places in the Cabinet, and as the Radicals are men without any ideas, save the idea that places are desirable, their group was quickly pacified. To the Socialists he also offered a place, which was accepted by one of their

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<sup>8</sup> These articles caused a stir in Italy, and great speculation about the real identity of "Italicus": this in turn aroused the indignation of the editor of *The Economist* (see the letter of February 2, 1912, in appendix A).

leaders. The Socialist Party, indeed, preferred to keep itself free from direct Governmental responsibility, but obtained, as a return for silence and support, the promise of universal suffrage, and of the monopoly of life assurance as a step to old-age pensions...<sup>9</sup> The quiet of Cabinet life in the Chamber seemed to be thus assured, as the opposition was limited to the small group of Republicans and the non-combative followers of Signors Sonnino and Luzzatti. (October 21, 1911)

Einaudi also identified the change in political ideals taking place in Italy, with the rise of nationalism, which in part forced Giolitti to embark on the Tripoli enterprise:

The Tripoli enterprise is not exclusively a politician's device to gain power... This enterprise was forced on [Giolitti] by the Yellow Press, which, in its turn, has been profiting by a peculiar state of mind of the younger generations. The Tripoli movement is an intellectual movement. In the Nineties young men turned to Socialism. The years from 1890 to 1900 were the golden age of Socialism. All were Socialists, all that was enthusiastic and ardent in Italy. After 1900 Signor Giolitti's politics transformed Socialism... Socialism went into power; Socialist members were in high favour in Governmental circles. With favour came some good things: impartiality towards working men during the labour struggles, some new labour legislation, etc. With favour came also corruption. The Socialist members are to-day as much favour-seeking, place-hunting men as the other members... The degeneration of Socialism left the new generation without ideals, without wrongs to be remedied, without a word to congregate around. Nationalism arose in this wilderness. (October 28, 1911)

In this period, the only institution of which this Italian economist had a good opinion, the only institution in which he had confidence, was the Bank of Italy, directed by Bonaldo Stringher. "The Bank of Italy in the 15 years past", Einaudi wrote on April 17, 1909, presenting the annual bank report, "has been extremely well managed, and has acquired a prominent position among the European banks of issue". He defined its annual report as "the most important financial document of the year". Thanks to the bank's patient reconstruction, it had been possible to overcome "the utter ruin of the Italian banks of issue prior to 1894" (ibid).

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<sup>9</sup> Einaudi strongly contested the life-insurance nationalisation proposal, which he considered an "ill-judged confiscation of private property as no compensation whatever was to be granted to national and foreign companies". Moreover it was, according to him, "a long step toward the enlargement of bureaucracy, the greatest peril now confronting Italy" (letter of October 28). In 1911, on the pages of *Il Corriere della Sera* and *La Riforma Sociale*, Einaudi launched a campaign against the proposal which had partial success (see FAUCCI, pp. 106-111, and FORTE, pp. 94-103).

Close attention, confidence and high opinion would be constants of Einaudi's position with regard to the Bank of Italy in all his articles for *The Economist*. In December 1930, Einaudi wrote a short obituary of Bonaldo Stringher in which he maintained that his death was a "grave loss both to the bank and to the country". Stringher had been, he said, "the principal author" of the Bank Act of 1893, which constituted "the foundation of Italian banking law"; and "under his guidance the Bank of Italy greatly improved its position and successfully withstood the crisis of 1907 and the still greater strain imposed by the war" (ibid). Einaudi concluded that: "the balance sheet of the Bank of Italy at the time of his death is a testimonial of the soundness of his administration", and defined Stringher's annual reports as "a classic source of the economic history of Italy during the first thirty years of this century" (ibid).

## 2.2. *The war period: controlled criticism*

During the war period Einaudi reduced his contribution to *The Economist* both in terms of the number of articles he wrote<sup>10</sup> and the variety of subject-matter. Whilst, as Faucci shows, Einaudi expressed two attitudes in *Il Corriere della Sera* – the 'preacher', talking of the duties of the Italian people, advocating economy and saving, and the 'scholar', critically analysing the government's economic policy – on the pages of *The Economist* he curtailed any doctrinal passion, simply discussing the major economic issues, at most sometimes criticising public intervention or cautiously expressing his worries. The Italian financial situation and the war loan were his principal subjects. As in *Il Corriere*, between 1915 and 1918, Einaudi commented upon the numerous loans required by the war economy.<sup>11</sup> These represented the principal cause of indebtedness, in order to finance greatly-increased public expenditure. Einaudi also noted the loans' surpris-

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<sup>10</sup> During the war *The Economist* relied on a number of correspondents from Italy, perhaps to ensure a more varied and general picture than any single correspondent could have offered: some correspondences are dated Verona, and others are sent by one or more anonymous correspondents from the north of Italy, who, in some cases, may also be Einaudi, although we have been unable to find any confirmation of this fact.

<sup>11</sup> In December 1915, Einaudi also published a long article in the *Economic Journal* on Italian finance at the request of John Maynard Keynes. Keynes wrote: "Dear Professor Einaudi, Professor Edgeworth tells me that you are now writing about the Italian war loan. If you are, perhaps, able to spare the time to write a summary statement of this Italian financial position for the September *Economic Journal* I should be extremely obliged to you..." (letter of July 26, 1915, in the Fondazione Einaudi Archives).



ing success. With regard to this, at the beginning of 1918, he wrote: "During the period from July 1914 to October 1917 the Italian market has absorbed readily a mass of State securities which in time of peace would have seemed impossible" (January 26, 1918). So it would have seemed if this were not already recognised as a crucial aspect of the Italian socio-economic fabric:

One of the greatest economic forces of Italy is its net of small saving and popular banks, which are diffused all over the country and draw from local sources their funds, which are mainly devoted to financing agriculture, commerce and industry. (ibid.)

Einaudi's fundamental concerns in this period shared by many politicians, entrepreneurs and the Bank of Italy itself – were the downward trend in the value of the lira and the unfavourable balance of international exchanges. He attributed rising inflation to the increase of circulating paper necessitated by the policy of financing the war, and he was aware that in time of war it was not possible to stabilize the currency by decreasing that circulation. On the matter of international exchanges, Einaudi explained to the English readers that the deficit was aggravated by the great decrease of remittances from Italian emigrants, a fact which he considered temporary and one the fourth war loan was in fact issued to redress. Although Einaudi criticized those interventions which overly restricted the free-working of the market, he showed more moderation than in his articles published in *Il Corriere*. And the same was true of his attitude towards the 1916 decree limiting the dividends of joint-stock companies in order to compulsorily increase their reserves. Einaudi wrote:

It would be in the public interest if some means could be devised to give security to industry, for nothing checks enterprise so effectively as uncertainty concerning fiscal measures. (September 16, 1916).

Similarly, he objected to a subsequent socialist-journal campaign against the war profiteers, which proposed confiscation by taxation, because this made "the industrial world frightened: an indefinite limitation threatened stagnation in the industrial world" (November 25, 1916).

On the whole during the war period, Einaudi sought to present an undramatic view of the Italian situation on the pages of *The Economist*, softening criticism which was, in contrast, much stronger in his articles for *Il*

*Corriere*. In all likelihood this was to reassure the Anglo-Saxon world of the financial solvency of the country, which was at that time heavily indebted to both the United Kingdom and the United States.

### 3. THE SECOND PHASE OF EINAUDI'S CONTRIBUTION: FROM POST-WAR CRISIS TO THE FIRST PERIOD OF FASCISM IN POWER, 1919-25

#### 3.1. *The immediate post-war years: Economic instability and political crisis*

The post-war years were particularly agitated ones for Italy. Many and momentous were the problems to be faced by the end of the war: a public debt higher than national income and a rate of inflation higher than all the other important allied countries; the fall of the lira and a balance of trade deficit not entirely paid for by the remittances of Italian emigrants; increasing difficulties for industries and banks caused by the assault on the big banks by industrialists; and last but certainly not least, rising social unrest. During this period Einaudi's activity as a journalist was prolific for both *Il Corriere della Sera* and *The Economist*. In fact, 1920 saw the start of the period of Einaudi's greatest and most frequent contributions to the English newspaper: fifteen of his articles were published in 1920, twenty-four in 1921, thirteen in 1922; and this high rate continued in the years that followed. On the pages of *The Economist* Einaudi continued to inform the British public of events in Italy, but with a renewed polemical vein, deeply aware of the gravity of his country's situation, having, as it had, borne a tremendous wartime effort: "Italy is, of all the Allies, the country which has sustained the most crushing financial effort, relative to her previous wealth" (February 1, 1919).

In June 1919 Nitti became Prime Minister and Einaudi, from his economically orthodox point of view, did not skimp criticism of the new government's interventions. He opposed the new general tariff proposed in autumn that year because its trend was "distinctly protectionist", and the extraordinary capital taxes on increments of capital owing to the war and on dividends of shares and other bearer securities, of April 1920. Instead, he commended the proposal to stop the bread subsidy, a move however which brought about the fall of the Nitti cabinet in June 1920. Nevertheless, Einaudi believed that "the worst point has been passed", that a "stop has been put to new increases in notes issued" (May 29, 1920), due essentially to the outstanding success of the sixth national loan. The economic situation did not improve, though, when Giolitti was returned

to power. The end of his cabinet, thirteen months later in July 1921, saw things even begin to get worse: between October and November inflation increased, the lira was depreciated, share quotations fell. Einaudi considered the bourses a sensitive short-term indicator of the general mood of the country's economy. On November 13, 1920, he enumerated the causes of malaise: the huge deficit in the state budget, the fear of the coming compulsory inscription of all stock and share-holders and the confiscation of war profits, the unwillingness to put an end to the bread subsidy, and workers' industrial action. All of these were seen as factors which "are pointing to liquidation, restriction of the spirit of enterprise and inaction of speculators".<sup>12</sup> The fact which perhaps most worried Einaudi was the advent of the workers' control of industry: with the occupation of factories by metal and engineering workers in the Autumn of 1920, and the start of "an experiment in Sovietism", Einaudi wrote that the matter had "ceased to be one only of wages" and that "civil war seems impending" (September 18, 1920). At the same time, he strongly criticized the government's absence: "it has proclaimed its neutrality between the two belligerents, but this profession is hardly compatible with toleration of assault on private and public property, organisation of armed forces, etc" (ibid). Einaudi remained sceptical about the possibility that a 'communist experiment' would succeed:

It is not however probable that the Communist experiment will be made this time. Italians are not apt to stretch things to their extremes. They are a compromising folk, somewhat after the manner of Britishers, though only after a shower of high words and extravagant menaces. Above all, we are a nation of small land-owners, in which the propertied classes outnumber the true proletariat. They need only a strong Government, strong in ideas and leadership to put matters right. (ibid)

In November that year the political horizon cleared and foreign exchanges improved due both to international factors, such as The Treaty of Rapallo, and internal events, such as the municipal elections, which

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<sup>12</sup> Einaudi's criticism of the economic policy of Giolitti's government, in both *Il Corriere della Sera* and *The Economist*, was so vehement that it actually worried Italian leaders: in a letter from Filippo Meda, Treasury Minister, to Bonaldo Stringher, Governor of the Bank of Italy, dated November 3, 1920, it was suggested that Einaudi's articles presented Italy's financial situation in such a bad light that they were influencing the excessive depreciation of the lira. "He should sacrifice his spirit of criticism on the altar of patriotism", Meda wrote. The letter is published in: *L'Italia e il sistema finanziario internazionale 1919-1936* (edited by Marcello De Cecco), Collana storica della Banca d'Italia, Bari, Laterza, 1993.



"have not gone so well for the Communist party as they anticipated" Einaudi wrote on November 27, and the introduction of a bill for the reduction of the infamous bread subsidy. By April 16, 1921, Einaudi could write that "the social and political atmosphere is clearing" and the "nightmare" of an imminent communist revolution in Italy "is gone and gone for ever". Consequently he looked almost optimistically at the prevailing economic problems, believing that, from a structural point of view, the Italian economy was not in such dreadful condition after all. So, for example, already on October 16, 1920, and despite soaring foreign exchanges and fears over the closing of credits to Italian customers by foreign banks and trading firms, he maintained that the deficit of foreign trade was not a structural problem:

If only we could have a year of continuous work, the balance of international commerce might return to normal condition, and so far as the depreciation, or, rather, the unstable value of the lira, depends on excess of imports over exports, the foreign exchanges would be stabilised.

On the contrary, according to Einaudi, the two main causes of financial instability and economic crisis were the huge public deficit and the external debt. The "crushing load" of external debt, he wrote in June 1920, here in agreement with Keynes, "will be a source of great embarrassment for the Italian budget, for our foreign balance of payments and source of lasting friction between Italy and her allies", an opinion also shared by *The Economist* newspaper itself. At the end of 1921 he wrote:

Public opinion has not lost the hope that *The Economist's* thesis of the total cancellation of the inter-Allied debts will ultimately prevail; as, otherwise, all hopes of balancing budgets are lost and total confusion will prevail in our financial and monetary situation. (December 17, 1921)

Of the second crucial issue, the budgetary position and the internal deficit,<sup>13</sup> Einaudi noted on November 5, 1921, that, notwithstanding the

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<sup>13</sup> Einaudi's evaluation of the Italian budgetary position was less pessimistic than that expressed by Keynes in his *The Economic Consequences of the Peace* published at the end of 1919. In a letter to Keynes on January 23, 1920, Einaudi, after congratulating Keynes on his fascinating book, suggested that "perhaps your picture of Italian budgetary position is a little too pessimistic" (letter in the Fondazione Einaudi Archives). Again at Keynes' request, Einaudi wrote on the Italian financial situation in a supplement of *The Manchester Guardian Commercial* devoted to the 'Reconstruction of Europe', on July 27, 1922, maintaining that Italy would be able to solve her budgetary problems only if kept free from the 'obsession' of foreign debt. In several articles, on March 26, June 11 and August 6, 1921, and March 4, 1922, Einaudi emphasized the

reduction of notes issued and the improving trade balance, "foreign exchanges go up by leaps and bounds". He sought to explain this:

Perhaps, in common with all Europe, Italy is suffering from the widespread fear that the State will not be able to restore the equilibrium in its budget, and new paper issues will be in future inevitable. (ibid)

He continued:

If so, only a severe policy of economy and retrenchment will at length reverse the present downward tendency to the lira. (ibid)

Even so, one year later in November 1922, Einaudi emphasized that the economic situation of the country was "not bad", "far from it", and the unfavourable movements of exchanges and prices were caused by "the awkward financial situation of the state",<sup>14</sup> a judgment at that time shared by all the Italian political leaders. The most urgent necessity was the reduction of public expenses, because Einaudi considered taxation, greatly increased under the Giolitti government, already excessive and unincreasable further: large sums could be saved, he wrote in an article of November 4, 1922, if state bounties and subsidies were reduced or suspended, war pensions revised, plans for public works restricted to a minimum, and the state railway and postal services reorganised and rationalised.

Were the political forces able to meet the much-needed reductions? Political events made Einaudi pessimistic: Giolitti's cabinet had had to resign in July 1921 simply because of opposition in the Chamber of Deputies to stopping new expenditures. Popular Catholics and Socialists lacked the courage to say no to any requested expenditure, "as they cater for the vote of multitudes crying always after state aid" (ibid). The Socialist-Labour party, Einaudi wrote on August 19, 1922, "is transforming itself from a revolutionary into a constitutional party", but "the economic policy of the Socialists would be dangerous, public work for unemployed, doles out

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improvement in public finance. Even in December 1921 when the crisis of the Banca di Sconto erupted, the government's intervention was evaluated positively because it proceeded with prudence in providing financial assistance.

<sup>14</sup> It is worth noting that Einaudi considered the quantitative theory of money only "a partial explanation" of the depreciation of the lira (article of November 5, 1921). For Einaudi on the quantity theory of money see: "Della moneta serbatoio di valori e di altri problemi monetari", *Rivista di Storia Economica*, IV, 1939, pp. 1-34. See also FORTE, *Luigi Einaudi: il mercato e il buongoverno*, pp. 265-275.



of public purse to Labour organisations, and a new vast army of followers to be satisfied at public expenses". At the moment when a large effort was required to restore the state budget, the political and social situation precipitated and stable cabinets could not be formed:<sup>15</sup> "the air is full of bad temper and uncertainties", Einaudi had written on August 19, 1922. On December 2 of the same year he concluded that Italians were sick of their political leaders, "old, ineffectual, compromising, sceptic set of politicians", and that the general feeling was one of profound distrust towards a parliament which, on the issue of finance, was characterised by "excessive taxation, the system of piling tax upon tax, the demagogic persecution of savings and capital by taxes up to 100 per cent of income of capital".

### 3.2. 1922-1925: *Einaudi confronted with the laissez-faire policy of an unliberal government*

At the end of 1922 the Fascist party came to power, and Alberto De Stefani was appointed Minister of Finance. Up to that point, Einaudi had written only twice about the Fascists on the pages of *The Economist*. The first time was on April 16, 1921 (a few months after an article in *Il Corriere*) and was a positive reference: "A while ago Italy seemed likely to be the first country to fall a prey to Moscovite communism and barbarism; today the nightmare is gone and gone for ever"; according to Einaudi, merit for this also belonged to the Fascists "youths of the middle class, returned men and officers". Then, on November 4, he examined the Fascist's pre-election manifesto, expressing doubts about their capacity to halt new expenditure: "it is to be feared that Fascists... will hesitate before the task".<sup>16</sup> He wrote that Mussolini, a man "passionate and full of vigour", "able to commit his party to headlong plunges into unknown seas", was "not an economist", had indeed said "only one economic sentence: 'Italy needs at the helm a man capable of saying No to all requests of new expenditure'". And unfortunately "all leaders are saying the same thing", Einau-

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<sup>15</sup> When Bonomi's cabinet resigned in February 1922, Einaudi, in order to emphasise the definitive end of the Giolitti era, wrote that Giolitti, "the old man, who for a long time was supreme in the Government of Italy, and without whose consent no one ever dared to form a Cabinet, and against whom no one revolted", was unable to form a new cabinet. "The man who has set his face against Giolitti and vetos his return to power is a Sicilian priest, Don Sturzo, the organiser of the popular party" (article of March 4, 1922).

<sup>16</sup> On the pages of *Il Corriere* Einaudi's judgement was more favourable. Here Einaudi had no reservations in defining the Fascist programme as "the liberal programme of classic tradition", a judgement shared at that time by almost all Italian economists.

di commented (*ibid.*). However, on December 2, 1922, just after the elections, he considered "the first financial acts of the Fascist Government" as "promising": "they have abolished useless train services in the State railways and declared their intention to drop many Royal decrees instituting port authorities in minor ports". He added: "the most important act of the new Cabinet has been its demand for provisional powers to collect and expend revenue till June 30, 1923". This bill gave the government an absolute power never before entrusted to an executive by parliament, and had occurred, Einaudi claimed, as a result of the negative reaction of the public to the old political class. An article published on December 2, 1922, showed Einaudi, totally disillusioned by the inability of the old political class to get Italy out of chaos, hopeful that the Fascists defined "a [new] set of politician, young, energetic, full of vigour", able to manage the Italian economy, reliant on the fact that "most of the new Ministers are capable men, truly desirous of doing well".

In *The Economist*<sup>17</sup> Einaudi supported the government's economic policy throughout 1923, though in *Il Corriere* he expressed doubt and even dissent about Fascism's illiberal political methods.<sup>18</sup> On January 13, 1923, Einaudi wrote that "free trade ideas... are making some progress in Italy"; on March 10, he maintained that the two Royal Decrees, "regulating shipping services and shipbuilding, two main causes of huge afterwar expenses to the Treasury", were going in the right direction; and a month later, on April 14, he believed there was increased hope that the public budget would balance and that "Signor De Stefani, Minister of Finance has taken another step in the truly gigantic task of simplifying our complicated tax system". In his first annual article on the situation of Italy, published in the monthly supplement of *The Economist* on February 17, 1923, Einaudi underlined the decrease in the budget deficit. The greatest decrease in the budget deficit had taken place when Giolitti abolished the bread subsidy

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<sup>17</sup> Even though macroeconomic issues prevailed in Einaudi's articles in this period, they were not the only subject he discussed on the pages of *The Economist*. Other issues also attracted his attention, among them the failed attempt of a group of Turin industrialists (Agnelli, Gualino and Abegg) to gain control of the Credito Italiano bank and thus a great source of credit, an occasion for Einaudi to warn bank directors that in future they would have to "take great care not to let a similar attack develop" (May 24, 1924).

<sup>18</sup> For example, in an article of May 14, 1923, he wrote: "We were and we are opponents of certain tendencies and methods of internal policy and of the constitutional reform wanted, so it is said, by the government; our opposition to it is suggested by the same reasons of principle which make us praise the reforming work of the government in the financial issue" ("Il risanamento economico e finanziario dell'Italia nel discorso del Ministro delle finanze a Milano...", *Il Corriere della Sera*, May 14, 1923).

but, on May 26, 1923, Einaudi insisted that since then "the betterment was continuous" and "Signor De Stefani deserves great credit for the valiant efforts to eliminate the causes which compel the Treasury to incur new debts"; and on September 22 he wrote that "Signor De Stefani is quietly adding, almost every week, something to his rebuilding of our financial system". At the year's end, there was also a positive judgement on the restructuring of public services (December 8, 1923).

By the beginning of 1924 Einaudi could evaluate the state of the Italian economy in positive and genuinely optimistic terms: "the gold-value of the lira, after touching bottom in 1920, had not varied much in the last years"; "new savings are being increasingly invested in industrial enterprises" (January 5, 1924). Public finance was also improving on April 12, 1924, he wrote that the state of public finance was "sound" and that "Italy can face the future without uncertainty". "The foundations of Italian economics are strong, and the outlook for the future is promising", he announced in an article on November 29. Two outstanding problems did, however, still concern Einaudi. The first of these was the external debt (that is, the war debts), which was "the only remaining stumbling-block in our public finance" (February 9, 1924). Einaudi insisted that the debt had to be cancelled otherwise the recovery of national finance would be impossible. Furthermore, as he had emphasized some months previously, the issue was clouding Anglo-Italian relationships; a serious fact which could undermine "a fundamental principle of Italian foreign policy" from 1860 onwards, namely "to maintain friendly relationships with Great Britain" (January 20, 1923). The second problem was that of the stabilisation or the revaluation of the lira. Einaudi was in favour of stabilisation: although he recognized that "public opinion in Italy still clings firmly to the hope that in some future day the lira will be restored to the old gold parity", he was not convinced because he saw that it would determine great difficulties "in the balancing of the public Budget and in the dislocation of industries" (April 14, 1923). On April 12, 1924, he noted that it was not "wholly clear" if the government and the Bank of Italy were aiming solely at stabilisation or also at a revaluation of the lira, commenting that "perhaps their policy is not definitely settled". On November 29, 1924, he reaffirmed his own position: "the increasing stabilisation of the lira", he said, was a "potent element in economic progress".

How was it possible to support the liberal economic policy of a politically un-liberal government? This issue was dramatically present in Einau-



di's articles in *Il Corriere della Sera* between 1923-24, and seemed to become a moral contradiction increasingly difficult to sustain. It eventually caused his dissociation from Fascism: the Matteotti abduction and murder made Einaudi fully aware of the impossibility for a liberal to support the Fascist regime.<sup>19</sup> This rupture is scarcely visible in the articles published in *The Economist*, consciously restricted as they were to the discussion of economic and financial issues. However the restriction and his suppressed indignation with the state of affairs were both notable in his description of the Matteotti affair:

Political events have been prominent since the meeting of the new Legislature. As my letters relate to economic affairs, I will only note that the lurid Matteotti affair acted as a check on the frantic upward movement which was going on in Italian Stock Exchange. (June 28, 1924)

Critical references to Italian political events were not absent in subsequent articles but they were few and controlled. It should be remembered that the Fascist regime was strongly condemned on the pages of *The Economist* in articles written by English journalists, ie. journalists free from the risk of Fascist repression, (see for example articles of June 24, and November 15, 1924; and the subsequent conciliatory remarks on, for example, January 10, 1925).

In July 1925 De Stefani resigned: his work, Einaudi wrote on August 15, 1925, "will be long remembered":

During his tenure of office the Italian Budget position was turned from a huge deficit to a small surplus... Signor De Stefani was a strong opponent of new expenditure, and, so far as he could go, worked against Protection.

However, in De Stefani's "well-meant endeavour to revalue the lira, he shook financial markets" and the lira suffered instead of improving (ibid). De Stefani's successor was Giuseppe Volpi, and Einaudi, probably somewhat concerned, commented only that "he is endeavouring to keep himself in close touch with banking and business circles" (ibid). In the ensuing months the political climate worsened: at the end of the year Einaudi resigned from *Il Corriere della Sera* after his friend Luigi Albertini was forced to give up the newspaper's editorship because of the Fascist's threats to suspend publication. From then on, *The Economist* became

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<sup>19</sup> The issue of Einaudi and Fascism between 1922 and 1924 remains a subject of discussion among the historians: see the works of Faucci, Forte and Marongiu already cited.

the only newspaper in which Einaudi discussed and analysed Italian economic events.<sup>20</sup>

#### 4. THE THIRD PHASE OF EINAUDI'S CONTRIBUTION: ITALY UNDER THE FASCIST REGIME, 1925 TO 1935

Between 1925 and 1935 Einaudi's articles in *The Economist* numbered 143, an average of 13 per year. They analysed the most important issues of the period: the economic policy of Fascism and the search for a new macroeconomic equilibrium as a consequence of the 'quota 90' policy, the effects of the great crisis and the building of a corporate state.<sup>21</sup>

##### 4.1. 1925-1929: *the analysis of the revaluation of the lira and the deflationary policy*

Einaudi's articles between 1925 and 1929 focussed principally on the stabilisation/revaluation of the lira, which was also a central theme of political and academic debate,<sup>22</sup> and of the subsequent, difficult macroeconomic adjustment. According to Einaudi, the first problem that had to be faced was the weakness of the lira. At the end of January 1925 the gold value of the lira sank to 21.5% and a decree had to be issued introducing stringent regulations on speculative dealings in securities and foreign exchange transactions. A decree "which savours of war legislation", Einaudi commented (March 14, 1925). Although the fall of the lira had raised fears that "too many Italian capitalists are making investments abroad", Einaudi wrote:

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<sup>20</sup> Of course, a complete evaluation of Einaudi's interpretation of Italian economic events from 1925/26 to the war would also need to examine the articles published in *La Riforma Sociale* until 1935 – a task beyond the aim of this introduction.

<sup>21</sup> According to Walter T. Layton: "Einaudi's regular pieces in *The Economist* were a thorn in the flesh of the Fascisti" ("In commemoration of President Luigi Einaudi", London 1962, see appendix B).

<sup>22</sup> For a survey of the debate see M. MARCONI, *La politica monetaria del fascismo*, Bologna, Il Mulino, 1982. For recent authoritative reconstruction of the monetary policy of Fascism, based on new documentation, see: F. COTULA and L. SPAVENTA, "Introduction" to *La politica monetaria tra le due guerre, 1919-1935* (edited by Cotula and Spaventa), Collana storica della Banca d'Italia, Bari, Laterza, 1997; M. DE CECCO, "Introduction" to *L'Italia e il sistema finanziario internazionale, 1919-1936* (edited by M. De Cecco), Collana storica della Banca d'Italia, Bari, Laterza, 1993.

up to the present the emigration of capital is not noticeable so far as the average saver is concerned; it seems, indeed, to be limited to non-remittance to Italy of the proceeds of sales of Italian goods made in foreign countries. (*ibid*)

Nonetheless, the decree provoked a rush of sales on the stock exchange and prices tumbled by a hundred points in only a few days. The Finance Minister, still at that point De Stefani, was forced to revise the decree; but in March a new decree set a ceiling on the number of exchange and security brokers and raised the guarantee which they had to deposit. At the same time the official rate of discount was increased. On April 4, 1925, Einaudi wrote that:

the Minister of Finance was evidently of the opinion that speculation was rife in the Italian Bourses, which was very much akin to a flight from the lira toward goods and securities representing goods, and he endeavoured to check this mania.

For Einaudi, the only likely efficient remedy was to increase the price of money. In April, the great turmoil in the stock exchanges obliged the government to intervene and suspend regulations, and on May 9 Einaudi commented:

Recent events have taught the lesson that the stabilisation or restoration of the lira is not to be gained by direct intervention in the money market. The Stock Exchange regulations had the well-meaning aim of checking the speculative mania, of decreasing the demand for paper money, and of facilitating the reduction of paper issues. The sensitiveness of the market proved stronger; the crisis alarmed everyone; captains of industry feared difficulties in raising much-needed capital; and the Government was obliged to authorise banks of issue to furnish funds to the market. Total paper issues increased... A failure of a well-aimed enterprise.

The weakness of the lira continued, in July falling from 116 to the pound sterling to 133, "a rather alarming turn" (July 18, 1925), even though the quantity of paper issued was not increased. A chief cause of the instability of the lira, Einaudi believed, was the fear that Italy would never be able to pay off its foreign debt and the state would be "bound to bankruptcy" (*ibid*). "Very small sums can be paid by our taxpayers to the service of external debt" (*ibid*), he warned, because the burden of taxation was very high – he calculated that the rate of taxation, which had rapidly increased since the pre-war days, was 20-22.5% of total national income – and a further increase of it could only "favour the



flight of new savings away from the lira" (June 13, 1925). August and September saw an improvement of foreign exchanges due to the success of the so-called 'lira campaign' which lowered the exchange-rate to 115 lire to the pound sterling.<sup>23</sup> Einaudi defined this as a first step toward stabilisation, which would, he claimed, be characterised by a deflationary policy. He compared the situation of Italy to that of Great Britain after the adoption of the Cunliffe Report (1918) and of Germany after the collapse of the paper-mark and the adoption of the Renten-mark (1923). After showing the increase in the capital of joint-stock companies between 1922 and 1925, he insisted that: "the truth is that industrial development had been more rapid than the increase of national savings... We are bound, therefore, to reduce the rate of progress" (October 10, 1925). In November a second step toward stabilisation was taken when the Italian mission for the settlement of the debt with the United States, begun at the end of October, proved successful. Einaudi, estimating the remaining public debt to be about 106,384 million lira or 900 million sterling, commented: "the only uncertain item [of the public debt] is the British debt", and at that point the public debt was "a great sum but one which the state budget can bear" (December 19, 1925). The problem of the inter-Allied debt more or less resolved, and therefore that of the structural weakness of the lira, the stabilisation of the lira was now a practical possibility. With regard to this, and the 100 million dollar loan from the United States, negotiated by Volpi, to be utilised in the continuation of the policy of stabilisation, Einaudi wrote:

The first step will probably be that the Bank of Italy, by skilful management of the loan fund, will maintain the rate of foreign exchanges at the selected level. The second step will be the adoption of a sort of gold exchange system. (ibid)

He concluded:

Experience will tell at what precise point stable equilibrium can be reached, without laying on the Bank of Italy's shoulders an impossible task. (ibid)

By the beginning of 1926, Einaudi's judgement of the Italian situation was positive: in the first six months of the financial year there was a surplus, foreign exchanges improved and the quotation of the lira seemed

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<sup>23</sup> At the same time, at the end of October, "the chain which seemed to bind together the Italian lira and the French franc broke down"; "an interesting feature", Einaudi commented on November 7.

to have stabilised at 120 pounds sterling, without artificial endeavours to maintain it; industry was also developing at a rapid pace, and unemployment was almost zero. On March 13, 1926, he hoped that:

by maintaining the lira at a stabilised level, a new equilibrium of internal and external prices, a reduction of costs and a revival of faith in industrial securities will be reached.

But at the end of April the rate of exchange began again to increase: "the vagaries of the rate of exchange continue to be the most important problem in the economic life of Italy" (July 10, 1926). The problem, he maintained, lay not in the balance of trade nor the budget balance. The latter was "no longer a factor in the falling value of the lira", the treasury being, according to his calculation, "in a very strong position" (*ibid*). On the contrary, "the crux of the present situation lies in the risk of an increase in note issue", and such an increase could be consequent "upon an unforeseen obligation causing the Treasury to withdraw deposit from the Bank of Italy" (*ibid*). In fact, the public deposit was the source from which the Bank of Italy drew the means to make larger advances to commerce and industry, notwithstanding the decrease in note issue. Einaudi believed that "Italy has solved other bigger financial problems, and she will solve this lesser monetary problem", and that gradual restriction of discounts by the bank of issue were the method "by which it will be possible to put an end to risky business of financing industry through public deposits" (*ibid*). In November 1926 Einaudi welcomed two events he considered of far-reaching importance in the defence of the lira: the consolidation of the Treasury bills and the suppression of the 'autonomous' section of the consortium for industrial securities. The latter had been created in 1922 with the purpose of salvaging, first, the Banca Italiana di Sconto, then the Banco di Roma, and Einaudi considered its liquidation to have been "slower than was deemed in accordance with the new deflationist policy" (November 13, 1926).

At the beginning of 1927 the attainment of price equilibrium was still under examination by Einaudi. Commenting on what he called "a revaluation crisis", he wrote:

Italy is indeed passing through a difficult adaptation to a new level of price; and, as usual, some suffering is the inevitable accompaniment of the revaluation of the lira. But the final outcome of the process seems to be the elimination of the unfit, more liquidity in the banks, lower, and, therefore, saner valuations in the balance-sheets; more prudent ideas of future profits, and a consequent



Italy - Politics and Stock -  
<sup>Plenty of money - New money -</sup>  
Exchange fever - Unemployment  
~~Foreign~~ Bankruptcy - foreign  
trade - industrial situation's index  
(from our correspondent)

Turin, June 26, 1914

Political events have been  
prominent after the ~~1910~~  
meeting of the new Legislature.  
As my letters relate ~~to~~ to  
economic affairs, I will ~~not~~  
~~omit~~ only note that the  
lucid Matteotti affair  
acted as a check on the  
frantic rise movement which  
was going on in Italian  
~~Plenty~~ Stock-Exchange.  
If we take as basis 100 the  
quotations for December 1913,  
(number-index Bachi)  
State securities, which were

compelled to amend the law. There are admittedly many flaws in the present settlement, but it is not impossible to attain any kind of all-round "fairness": e.g., ordinary unsecured creditors who have been ruined by mark depreciation will in no case get any compensation. The re-opening of the question will result in a prolonged term of insecurity, which will incidentally react unfavourably on Germany's chance of getting foreign private credit. Even now it is [apart from the shortage of capital] impossible to conclude safe mortgages, because the land registers no longer reveal precisely what is the extent of existing State and private claims.

Company finance will also be upset. In the new gold mark balance-sheets, which are slowly appearing, the extinction of bonded debts naturally plays a great rôle. This is probably the chief cause why most companies are able to fix their new gold capital at higher than before the war. The following table, which summarises an analysis of 11 new gold mark balance-sheets made by the *Frankfurter Zeitung*, shows company bonded debts to be only 11 per cent. of the pre-war level:—

	1924 in Per Cent. of 1913.
Land, buildings, and plant .....	90
Securities and interests .....	25
Cash and credits .....	56
Wares .....	97
Capital .....	143
Reserves .....	85
Bonds and mortgages .....	11
Debts .....	64

In eight of the eleven companies the new gold capital is bigger than the old; in six land, buildings and plant are valued at higher than the old. The declines in credits and debts may be explained by the present greater prevalence of cash payments, which became the rule during the inflation time. Up to June 20th only 24 companies quoted on the Berlin Bourse had published gold mark balance-sheets. While the nominal paper mark capital of these companies has been reduced to anything from half to 1-100th in order to get the new gold mark capital, the latter is almost in every case higher than before the war. But whereas the pre-war average Bourse quotation was 170, the new average gold quotation is 554. Some good authorities think that the companies are putting their new gold mark capital much too high. If so, dividends will be small; and as German company law does not allow of the issue of shares under par, difficulty may be met in raising new capital. A revision of the Third Taxation Decree on the *Aufwertung* question would, of course, involve revision of the new balance-sheets.

Bankruptcies are rapidly increasing, and the number of cases of suspended bankruptcy still more rapidly. In Berlin several leading trades report depression. Unemployment in the Rhineland is increasing, but this shows itself mainly in reduced working hours. In all quarters the capital and credit shortage is made responsible for the depression, but it is officially pointed out that the difficulties of industry are in part due to a false understanding of the situation. Prices are still slowly falling. The official wholesale index number for June 17th was 117, against 117.2 a week earlier; the official cost of living index for June 18th was 112, against 113 a week earlier.

Three of the leading shipping concerns, the Hamburg-American, Norddeutsche Lloyd, and Hamburg South-American companies, have issued their reports for 1923. Capitalisations are respectively 285 million marks (180 million 1913), 1,000 million marks (125 million 1913), and 95 million marks (25 million 1913). The balance-sheets and profit and loss accounts show the usual confusion of values of different kinds, the capitals and reserves representing now nominal sums, while receipts and expenditure include indiscriminately "marks" of all values. No dividends are paid. The Hamburg-American Line's net profits were 299,999 billion paper marks; Norddeutsche Lloyd, net profits, 150,240 billion paper marks; Hamburg-South American, net profits, 749,203 billion paper marks. The Hamburg-American's fleet, including ships under construction, is 251 vessels, whereof 78 are sea-going ships, of total tonnage 422,538, against 439 vessels, whereof 194 are sea-going, of total tonnage, 1,360,360, in

1913. The Norddeutsche Lloyd's fleet, including vessels under construction, is 401,963 tons, against 982,951 tons in 1913.

#### ITALY.—POLITICS AND THE STOCK EXCHANGE FEVER—PLENTY OF MONEY—NEW ISSUES— UNEMPLOYMENT—FOREIGN TRADE.

(FROM OUR CORRESPONDENT.)

TURIN, June 21.

POLITICAL events have been prominent since the meeting of the new Legislature. As my letters relate to economic affairs, I will only note that the lurid Matteotti affair acted as a check on the frantic upward movement which was going on in Italian Stock Exchanges. If we take as basis 100 the quotations for December, 1918, the Bachi index number of State securities, which was as low as 73.8 in September, 1920, reached 100.2 in January, 1924, 101.3 in February, 103.0 in March, 103.9 in April, and 109.5 in May, 1924. That is a general average; 5 per cent. consols, which at a time in 1920 went as low as 67, touched in early June 102.50.

Yesterday (June 20th) they fell to 98.85. But the wildest fluctuations took place in "variable dividend" shares. Bachi's general index number (basis 100 at December, 1918) touched bottom in April, 1922, at 56.45. At the end of 1922 the index was 72.08; at the end of 1923, 85.67. In 1924 every month, save April, saw a rise to 89.79 in January, 96.18 in February, 101.70 in March, 100.51 in April, 114.34 in May.

The leaders in the upward movement were easily the silk shares, especially artificial silk. At a time, the greatest artificial silk concern, Soia-Vicosa, with a paid capital of 600 millions lire, was capitalised at 1,500 millions lire; the next one in importance, the Soie de Châtillon Company, with a paid capital of 75 millions, at 675 millions lire. Following these spectacular rises, operators multiplied; crowds congregated every day on the floors and outside Stock Exchanges; fortunes were made. Stock Exchange men were all Fascists; no more strikes, social peace, abundant work, State Budget in equilibrium, no more prosecution against capital. Everyone was persuaded that Bourse quotations would rise indefinitely. On this excited state of mind the Matteotti affair acted like a bombshell. Something like a stampede took place. Soia receded from 504 to 400, Châtillon from 900 to 680, Fiat from 754 to 565, Bank of Italy from 1,050 to 1,625. Perhaps nothing more tragic will happen save losses suffered by over-enthusiastic bulls. Money is abundant and is anxiously seeking employment. After many years, during which the State absorbed all available savings, the situation has wholly changed. Public internal debt has decreased from 95,544 millions lire at June 30, 1923, to 93,655 millions at April 30, 1924. No wonder that the market situation was favourable to buoyancy and to new issues. In 1923 new issues of shares by joint stock companies, less decreases of capital or winding-up of companies, amounted to 2,131 million lire. In the first five months of 1924 the figure went up to 1,978.8 million lire, against 515.2 in the corresponding months of 1923.

As far as can be guessed by the belated unemployment figures, the industrial situation seems better than a year ago. At February 28, 1923, unemployed were 327,892; they decreased to a minimum of 178,612 at August 31, 1923; seasonably rising to 258,580 at end of December, 1923, to 280,765 at January 31st, and decreasing to 259,360 at February 29, 1924.

Foreign trade in the months from January to April, 1924, compared as follows with the corresponding period of 1922 and 1923 (in millions of lire):—

	1922.	1923.	1924.	Difference Between 1922 & 1923	1923 & 1924.
Imports .....	4,837.7	5,525.5	5,815.8	+ 978.1	+ 290.3
Exports .....	2,744.4	3,143.5	4,357.8	+ 1,613.4	+ 1,214.3
Excess of imports over exports .....	2,093.3	2,382.0	1,458.0	— 635.3	— 924.0

The excess of imports is decreasing, thanks principally to more abundant exports, the most notable increases being in silk and artificial silk (from 850.1 million lire in 1923 to 1,077.3 million lire in 1924, fruits and vegetables (249.9



# Commercial History

## Italy

Foreign Trade. — Excluding precious metals and reparation delivery and adopting the corrected figures of the Central Institute of Statistics, the figures for 1929 and previous years were as follows

(in millions of lire)

	Imports	Exports	Excess of imports over exports	Present stabilized lire x	Pre-war purchasing power lire xx
	<u>a</u>	<u>a</u>	<u>a</u>		
1910-13	3496	2528	968	968	968
1920	18.105	8.742	9.363	11.170	—
1921	17.227	9.300	7.927	7.384	—
1922	15.765	10.698	5.067	4.551	206
1923	17.189	12.757	4.432	3.877	433
1924	19.381	16.529	2.852	2.360	- 61
1925	26.200	21.015	5.185	3.931	216
1926	25.879	21.125	4.754	3.446	248
1927	20.325	15.632	4.693	4.602	761
1928	22.042	14.529	7.513	7.513	1542
1929†	21.353	14.886	6.467	6.467	1504

a In paper lire current in the indicated years

x for the sake of comparison, the paper lire ~~amount to the respective~~ are converted into ~~present~~ old gold lire ~~and then~~ at the current exchange rate and these are in their turn converted into present (gold) stabilized lire at the rate of 1 to 3.6)

xx In this column old gold lire are corrected according to their respective year by year purchasing power as calculated by the <sup>Italian</sup> Economic Council † Purchasing Power

1928. In proportion to estimates, however, receipts were only 66 per cent. in 1929, as against 70 per cent. in the previous year. Reparation payments, which were partly responsible for the exigencies of public finance, rose (excluding deliveries in kind) from 1,887 in 1928 to 2,150 million marks in 1929. Municipal finance came to a turning point in November, when a compulsory consolidation of the 2,000 million marks floating debt was decided upon and future expenditure made subject to severe limitation.

**Industry.**—Industrial production was considerably higher than in 1928. The output of pig iron rose from 11,654,000 metric tons to 13,500,000 metric tons; output of steel ingots rose from 14,517,000 to 16,300,000 metric tons. This rise was slightly in excess of the rate of world increase under each of the two heads. Other production figures in the heavy industries are (January-November):—

	(Thousand metric tons.)		
	1927.	1928.	1929.
Rolling-mill products ...	11,782	10,699	11,555
Coal .....	140,359	139,057	149,785
Lignite .....	136,673	152,119	160,648

In the Ruhr coal district activity was particularly intense, and coal output increased during the year by 28 per cent. Coke and briquette output by about 51 per cent. The engineering industry maintained a high level of production as rising exports made up in quantity—if not in profits—for the diminishing home demand. The electro-technical industry had a dull year, the falling off in demand for its products reflecting the general trade depression; exports, however, were satisfactory. The *Rohstahlgemeinschaft* (Ingot Steel Syndicate) agreement came up for renewal and, after strenuous discussion, was extended for ten years. No important new amalgamations are reported, but it is thought that the merger of the two largest banks will stimulate further industrial concentration by removing elements of rivalry among the financial interests. In this connection rumours are afloat concerning a possible merger in the shipping world. Unemployment was comparatively low during the first half of the year, but rose above the previous year's level from October. The monthly average of unemployed in receipt of relief was 1,775,000 in December, 1928, as against 1,702,000 in December, 1928.

**Prices and Wages.**—The official index of wholesale prices in December, 1929, was 154.3, as against 139.9 in December, 1928 (1913 equals 100). The decrease was mainly in foodstuffs and in raw and semi-manufactured materials, while prices of manufactured goods decreased less. The official cost-of-living index remained almost unchanged.—December, 1928, 152.6; December, 1929, 152.7 (1913 equals 100). The upward trend of wages continued. On the average, the weekly tariff wages of skilled labour increased by 4.8 per cent., those for unskilled labour by 4.3 per cent. during the year. A calculation published by the *Institut für Konjunkturforschung* puts the total yearly incomes of all employees, including civil servants, as follows:—

1927 .....	40,000,000,000
1928 .....	45,000,000,000
1929 .....	46,000,000,000

This means a 2 per cent. rise in the average standard of living during the past year.

**Tariffs and Commercial Agreements.**—Agricultural import duties were raised in June after the existing commercial agreements with Sweden, Switzerland, France and Finland had been amended. At the end of the year, a further rise in agricultural duties was under discussion with a special provision for sliding scales. The industrial tariff of 1925, which terminated at the end of 1929, was extended without material reduction and the Government is now contemplating additions and increases.

**Agriculture.**—Favourable crops led to an increase in exports of farm products, while imports were further reduced. Since 1927 agricultural exports have risen

by about 280 million marks and imports declined by about 500 million marks.

	(Millions of marks.)	
	Imports.	Exports.
1925 .....	4,023	520
1926 .....	3,571	504
1927 .....	4,326	441
1928 .....	4,203	631
1929 .....	3,817	701

The prominent feature of the agricultural situation was the rising tide of indebtedness which neither increased duties nor State aid could materially reduce. A thorough official inquiry showed, however, that the financial stringency is most marked in the large estates of the east, while west and south of the Elbe agriculture is tolerably prosperous.

## ITALY.

**Foreign Trade.**—The corrected figures of the Central Institute of Statistics for 1929 and previous years were as follows (precious metals and reparation deliveries excluded):—

	(In Millions.)		Excess of Imports over Exports.	
	Imports.	Exports.	Paper Lire.	Present stabilised Lire.*
1910-13 .....	3,496	2,528	968	3,553
1920 .....	18,105	8,742	9,363	11,190
1921 .....	17,227	9,500	7,927	7,394
1922 .....	15,765	10,698	5,067	4,551
1923 .....	17,189	12,757	4,432	3,872
1924 .....	19,381	16,528	2,852	2,360
1925 .....	26,200	21,015	5,185	3,931
1926 .....	25,879	21,175	4,704	3,446
1927 .....	20,375	15,632	7,743	4,602
1928 .....	22,042	14,529	7,513	7,513
1929† .....	21,353	14,886	6,467	6,467

\* For the sake of comparison the paper lire are converted into old gold lire at the appropriate rate of exchange, and these are in their turn converted into present stabilised lire at the rate of 1 to 3.67.

† Provisional figures.

‡ When expressed in lire of pre-war purchasing power the excess of imports in 1929 amounts to 1,504 millions as compared with the average of 968 millions in 1910-13.

The decrease in the import balance in 1929 is wholly attributable to the second half of the year. In the first half the excess of imports increased from 4,750 to 4,897 million lire. The heavy imports were due to coal, gasoline, corn and broken iron and steel. In the second half of the year, however, owing to lesser imports of wheat (854,000, against 945,000 tons), and of corn (244,000, against 466,000 tons), imports were lower at 8,801 million lire, against 9,251 million lire in 1928; and as the exports were unchanged (6,512, against 6,469 million lire), the excess of imports went down from 2,763 to 1,570 million lire. The hoped-for increase of exports has failed to materialise during the past year, as rationalisation and reduction of costs in industry have not yet produced sufficient result, though in agriculture the wheat campaign has met with better success.

The improvement in the balance of trade becomes almost negligible when expressed in terms of lire of pre-war purchasing power. To the deficit we must add the deliveries on reparation accounts, which are true paid imports, as Italy has to pay over to Great Britain and United States practically the whole amount received by Germany. The most important item in this account is coal, of which we imported 1,727,861 tons in 1925, 2,861,361 tons in 1926, 3,088,906 tons in 1927, 3,539,281 tons in 1928 and 1,927,000 tons in the first eight months of 1929.

**Crops.**—Agricultural yields generally were better in 1929 than in 1928. Comparative figures for several years are given in the following table.



check on expenditure. Perhaps prudence will continue to give counsels of restraint in the coming months, but prudence and restraint were always in difficult times the best roads towards recovery and future prosperity. (January 8, 1927)

One month later, on February 5, he stated that "the problem of the lira remains the crux of the industrial and general economic situation": the industrialists desired stable money, he wrote in April, but the government remained bent on its revaluation policy which was beginning to have a marked effect on wholesale prices. In May the lira reached the level of 90 to the pound sterling on December 21 it would be legally stabilised at the level of 92.46.<sup>24</sup> Einaudi avoided judgment on the decision to maintain "quota 90", limiting himself to a summary of one of Mussolini's speeches in which, discussing the problem of the lira in "trenchant language", the dictator said that the level of the lira represented "the recognition of the progress from a huge State Budget deficit to a substantial surplus, of the end of paper inflation, and of a balanced account of international payments" (June 11, 1927). Einaudi's positive reserve continued into September, when he wrote:

statistics... do not reveal as yet a very pronounced state of crisis in consequence of the revaluation of the lira. Nor is it probable that we shall see in Italy spectacular figures of unemployed such as were or are usual in industrial countries such as the United States, Great Britain, or Germany during the revaluation or stabilisation period. Italy being, like France, as yet predominantly a country of small cultivating landowners, economic cycles are bound to work more smoothly here. (September 17, 1927)

On October 22 he went as far as to say that the "Bank of Italy is at present in a very strong situation" and believed that "Italy could, if she wished, legally stabilise the lira at the present level of 90 lire to the pound sterling". By the end of the year, on December 24, and even in the presence of the bourses' inaction, the unfavourable opportunity for investment, the excess of savings and decrease in international trade, Einaudi only commented that the Italian process was analogous to the British process of the return to gold in order to arrive at a new and stable equilibrium of prices, wages, taxes and debts, "a process through which we must per

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<sup>24</sup> On the debate relating to "quota 90" see the works of Marconi, Cotula-Spaventa and De Cecco already cited.

force pass". In his now annual article on the Italian economy, Einaudi calmly noted that for 1927:

all data seems therefore to point out that the year was influenced by the revaluation process, whose intensity was of a magnitude perhaps not inferior to any similar foreign process. This accounts for the present industrial crisis in Italy, which, even so, is only of moderate dimensions. (February 11, 1928)

So at the beginning of 1928, Einaudi wrote that in many industries employers had to struggle "with the cost of production problem"; that "international and wholesale internal selling prices are in equilibrium with the stable monetary level; but wages and fixed-interest changes lag as yet behind" (January 28, 1928). Though by the middle of the year he still considered the stabilisation problem "as yet not over" (May 19, 1928), surveying the economy after the end of it (February 9, 1929), Einaudi referred to "the gradual passing of the revaluation crisis" after it had reached its worst point in the last months of 1927 and the first quarter of 1928.

During the revaluation process, after the stabilisation of the lira, problems arose in Italy's balance of payments. The country appeared to Einaudi to be passing through:

a temporary crisis of adjustment, when imports are increasing toward capital equipment of a growing industrial and agricultural activity, but the consequent flow of export goods is as yet not abundant enough. (February 23, 1929)<sup>25</sup>

The excess of imports over exports, due also to bad agricultural yields as well as the replacement of industrial stocks, was quite significant and, together with the structural decrease in the remittances of emigrants and the remaining high external debt, caused a serious problem for the balance of payments. Einaudi decried it as "the most momentous problem with which Italy is confronted" (February 23, 1929). Already in January Einaudi had noted the decrease in gold reserves and greeted appreciatively the "wise action of the Bank of Italy [in raising the rate of discount] to counteract the outward movement of its gold reserve" (January 12, 1929). On April 27, 1929, in his regular comment on the Bank of Italy's annual report, Einaudi summarized the 'Italian experience' of revaluation from an explicitly Ricardian point of view:

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<sup>25</sup> In his annual survey of 1929 (February 15, 1930) Einaudi remarked that "the hoped-for increase of exports has failed to materialise during the past year, as rationalisation and reduction of costs in industry have not yet produced sufficient result".

Italian experience is perhaps one of the most interesting recent verifications of the Ricardian theory of the international movements of precious metal... The steps were as follows: 1) Before monetary reform, internal prices were adequate at a level of, say, 120 lire to £ 1 sterling, 2) Notes and other sight debts were adequate in amount to the level of prices, 3) After stabilisation at the level of 92.7, gold internal prices are in 1928 still higher than foreign gold prices, 4) Therefore imports increased and export decreased... 5) A deficit arises which must somehow be paid, 6) Gold securities of the Bank of Italy decrease, but notes and cheque circulation decrease also, 7) So far we have dealt with past history. Coming to prophecy, we may suppose that the decrease of note and cheque circulation, which, by the way, is continuing..., reduced still further internal paper and gold prices. When the equilibrium between internal and foreign prices is finally restored, imports will again decrease and exports increase and the balance of international payments automatically be adjusted. The monetary manoeuvre will then be perfect. (April 27, 1929)

Einaudi attributed the merit of this procedure to Stringher:

As far as we can see, we are bound to compliment Signor Stringher on his admirable silent handling of the process. Nobody cares for the cries of those last remnants of inflationism, who would have preferred to keep the notes for internal use and borrow the gold securities toward meeting foreign engagements. Signor Stringher, in refusing these absurd claims, has deserved well of his country. (ibid)

Equally convincingly, on May 11, 1929, Einaudi wrote:

I explained in my last letter that the reduction of issues and of reserves going on in Italy at present is natural and perfectly in accordance with orthodox rules.

On the whole, Einaudi seemed fundamentally to agree with the monetary policy and actions of the Bank of Italy, from which he emphasized his autonomy (verified also legally – see the article of July 28, 1928), and trusted that in the long run an equilibrium would be established. He argued that the recessive effects of the process of stabilisation and revaluation were not altogether that dramatic, emphasising that the problem of unemployment was quantitatively small. He also outlined two points of great interest: a) that the crucial point of every revaluation process is that “revaluation means contraction of prices and of private income”; but “state expenditure is mostly fixed and cannot be contracted, so that the burden of tax payers increases”; and hence “years must pass before the old equilibrium between private and public expenditure is restored” (January 11, 1930); and b) that the stabilisation of the lira, in abolishing any



chance of appreciation in lira holdings, has diminished "the incentive for emigrants to convert dollars and other gold savings into lire" (*ibid*), thus determining a structural change on the credit side of the Italian balance of payments.

#### 4.2. *After 1929: the analysis of the Italian monetary policy in the period of the Great Crisis*

In October 1929, whilst in Italy the difficult process of adjustment was taking place, there was crisis on the New York Stock Exchange. Einaudi's first mention of it came at the end of November:

The New York slump had no appreciable influence on Italian Stock Exchanges. Since the middle of 1925 our bourses have been in a sleepy mood, transactions being limited to the professional operators, with no participation at all by the public. (November 30, 1929)

However, by the second half of 1930, the crisis had spread world-wide and the Italian economy was not spared: state revenue inevitably decreased, industrial activity showed progressive slackening, with unemployment rising to about half a million, a severe slump in foreign trade and lifeless bourses. Einaudi detailed the worsening economic conditions but his principal worry was the state budget: on December 13, 1930, he reported that the "budget situation, which had been slowly deteriorating for some months, revealed disquieting symptoms at the end of October". The Government confronted the situation by imposing wage restrictions on public servants and launching a press campaign for a thorough-going reduction in the cost of living, which in some sectors saw widespread reductions in prices and wages. Einaudi doubted however that such measures were sufficient to re-absorb the unemployment in the industrial sector:

The continued fall of wholesale prices has maintained the distance. Wages are beginning to decrease; but the general average is only slightly affected. (*ibid.*)

After May 1931 and the Credit-Anstalt crisis, foreign exchange markets suffered heavy disturbances and, in September, Great Britain suspended the gold standard. On October 3, 1931, Einaudi wrote:

The first repercussion... was in Italy one of bewilderment... It is feared that if the British suspension were followed by other weak countries, the menace to our exporting industries and to our balance of trade, much improved in later months, may become very strong and react on the Bank of Italy gold reserves.



A week later he tried to allay his worst fears when he wrote of the successful fight of the government, the treasury and the banks "to save the convertibility of the lira from world monetary turmoil" (October 10, 1931); and somewhat optimistically he reported on October 17 that "apparently the first shock of the British gold suspension has spent its force". In fact, government monetary policy continued to centre on the maintenance of the lira at its level of stabilisation, established in 1927, and in order to sustain this the official rate of discount was increased from 5.5% to 7%. At the same time, the Bank of Italy increased its gold bullion reserves: Einaudi remarked that this fact "seems to indicate a general tendency to leave the gold exchange system in favour of the gold standard proper" (November 7, 1931). In general Einaudi seemed to believe that "Italy is withstanding the shock of the world crisis better than other countries, mainly owing to the great number of landowners" (*ibid*). The Italian economy, he wrote, "is too secluded, too small-agriculturist, to be much concerned with international monetary portents" (*ibid*).

Yet the crisis worsened and industrial activity continued to slow down, in certain instances extremely so, and unemployment rose to one million in December 1931 and one and a quarter by the end of January 1933. The stock exchanges were "practically non-existent" (February 13, 1932) and, Einaudi noted, "the crisis is beginning to affect the revenue" (January 9, 1932). For Italy the crisis reached its nadir at the end of 1932, after which industrial recovery was progressive. "Industrial activity is not much below the 1929 level", Einaudi finally wrote on July 13, 1935, unemployment having fallen to 755,000 by the middle of that year. This figure was not worrying because:

in Italy... where people live mostly on their farms or in small shops or are independent artisans, the total may not be as alarming as it looks. It may be that in Italy, when the figure falls to, say, 600.000, there are no true unemployed. Some of the 600.000 do not care to work at all, and the rest are simply waiting for a better opportunity, earning a living meanwhile on casual jobs. Notwithstanding the 755.349 men and women now on the unemployment rolls, entrepreneurs are at times finding it difficult to obtain good hands. (*ibid*)

What really worried Einaudi instead was the abandonment of free trade and the rise of mercantilism in international trade. When at the end of 1931 commercial restrictions were introduced in Italy – "Italy is joining, not without reluctance, in the general rate of commercial restrictions", he reported on January 9, 1932 – he commented:

England's abandonment of free trade has caused the fact to be recognised that it is impossible to export if everybody is refusing to buy (*ibid*),

adding:

From the excess of ill, we may thus at last hope for a ray of light in the shape of international agreements, even if these appear in the crude mercantilist garb of quotas, pooling of foreign exchanges and other devices strangely reminiscent of a bygone era. (*ibid*)

Even in the worst moments of the country's economic crisis, Einaudi held faith in the established rules of economic orthodoxy. His opinion of the anti-inflationist monetary policy of the government and the Bank of Italy, and their defence of the lira, was substantially positive. He wrote on August 26, 1933:

The stability of the lira has reacted on public psychology, stopping or reducing the export of capital and even provoking not a few capitalists to recall balances, formerly held in foreign countries.

Already on December 26, 1931, he had maintained that the limited decrease in the total reserves of the Bank of Italy was not "an excessive price to pay for the maintenance of the stability of the lira".

Although by the end of 1933 there had been three official reductions in the rate of interest, in November 1934 it was raised to 4%, "mainly in defence of the gold and gold exchange reserves of the Bank of Italy" (February 17, 1934). But from then on the Bank of Italy's gold reserves continued to fall, and by the end of the year most people were asking for new restrictions on international trade. Einaudi, on June 9, 1934, had written that:

In your correspondent's opinion, the present Italian balance of payments is not so precarious as capital exporters presumably imagine.

On December 15 he explained that the fall of the gold reserve was caused by the interest and amortisation payments for the loans issued in foreign countries by the state and other public and private bodies between 1926 and 1928, and the repurchase of Italian securities issued in foreign countries. He approved of the government's intervention: "The Government [in counteracting the fall of reserves] most wisely has decided... to issue the... loan and raised the official rate of discount from 3 to 4 per cent". However, this was the last 'liberal' act of the Fascist government.

In December, faced with a further fall in total reserves, a decree was issued enforcing complete control of foreign exchange transactions.<sup>26</sup> Italy abandoned the liberal policy in foreign exchange markets and started an explicit programme of *dirigisme*, a programme which was already present in other areas of the economy.<sup>27</sup> In fact, the internal response to the crisis had been the progressive adoption of more *dirigiste* measures in the management of the economy.

### 4.3. *Critical analysis of the increasing state intervention*

#### 4.3.1. On the regulations in the bourses and foreign trade sectors

On July 1931, Einaudi noted that "internal economic problems... are giving rise, as usual, to a whole crop of legislative interventions". He disagreed with such actions essentially because he considered them inefficacious, when not actually harmful. Of such interventions in the bourses, in the autumn of 1930, he commented:

Today, in Italy, as elsewhere, much ink is consumed in order to persuade the public to come back to the Stock Exchanges. It is doubtful whether good regula-

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<sup>26</sup> Einaudi continued to be unperturbed about the future of the lira and to oppose any unorthodox intervention. In an article of April 20, 1935, commenting on the Bank of Italy's annual report, "which is, as usual, the most important financial document of the year", he wrote: "the data collected by the Bank of Italy are such as to authorise the conclusion that the halving of the gold reserves... was mainly due to capital investments by Italians in foreign countries, and to purchases, also by Italians, of foreign securities and of Italian securities issued in foreign countries... The stream of Italian capital seeking investment abroad is said by the report to be due to the excess of the rate of interest prevailing abroad over the internal rate, and also in the cheapness of sterling and dollar securities purchasable at the current rate of exchange. In some measure, therefore, the outflow of capital is due to the current cheap money policy. The recent reduction of the rate of discount from 4 per cent. to 3.50 per cent. is accordingly criticised in some quarters". In a short note on August 3, 1935, commenting on a decree which suspended the Bank of Italy's obligation to keep a gold reserve of at least 40%, he wrote: "The vital points for the future of the lira are not the little more or the little less of the gold reserve, but the quantity of notes issued; and further, as has repeatedly been remarked in this correspondence, the composition of the 'discount' and 'advances' items... In the past Italy has experienced monetary troubles almost only as a result of the inordinate rise in 'discounts and advances', which means the issue of new notes against frozen assets... There is no trace now of such expansion... The severe tradition inherited from Stringher's days makes it reasonably certain that 'discount and advances' will be kept within due limits".

<sup>27</sup> The revaluation policy of the lira ended in September 1936 with the reduction of the gold parity of the lira, which meant a devaluation of about 41%, to the levels of the end of 1927. Einaudi reported the fact without comment. A year later, on October 9, 1937, he remarked that "the alignment of the lira has given... a fillip to exports; but the favourable effects of it are progressively vanishing in the face of the increasing cost of imports".



tions can have such an effect; but it is certain that periods of crisis are sometimes useful, as they force on public opinion the necessity of reform. (September 27, 1930)

One year later, on the occasion of the introduction of new regulating powers in exchange-market transactions, he wrote: "The best cure, however, would be an improvement in the industrial situation" (August 29, 1931). This criticism of protectionism was a frequent characteristic of Einaudi's articles: at the beginning of 1929 he had opposed an increase in the sugar import duty:

These increases will surely aid the extension and better culture of wheat and sugar-beet lands. But the crucial question is whether they will also aid the lowering of the cost of living and therefore the cost of those agricultural and industrial goods which we must increasingly export in a competitive world if we are to pay for the increasing imports needed by our expanding population (January 12, 1929);

and then, in the following September, he attacked the proposal for an "industrial syndicate" to control trade, first considering it inapplicable – "the system necessarily presupposes a world syndicalisation of industry and trade carried to such an extent that at present it cannot be considered practical politics" – and secondly dangerous – "something of this kind worked during the war, and goes on now in the Russian collectivist system" (September 14, 1929). Increasingly he worried over the mercantilist revival in international trade, maintaining that Italy would only suffer from a policy of commercial restrictions. On July 21, 1934 he wrote:

In a world of high tariffs, quotas and restrictions, a country which exports fine and varied agricultural and industrial goods as against raw materials and heavy imports is bound to suffer. Equilibrium can, of course, be reached only by reducing costs; but... the most rigid costs are imported materials. The scaling down of Custom Tariffs is therefore the first condition of a return to equilibrium.

Similarly a year later, on June 1, 1935, he wrote again:

Another big step in the centralisation of foreign trade and foreign exchange business had been taken with the creation of the office of Superintendent of Foreign Exchange, to be directly responsible to the Prime Minister. The multiplication of quotas, clearings, compensated exchanges, restrictions on the sale of exchange, etc., has caused the creation of many offices, sometimes mutually interlocking, and all retarding business.



Restrictions had been introduced in order to stop the drain on the gold reserve, yet Einaudi countered that there was no evidence of any "direct correlation between the import surplus and the decrease in gold reserves" (March 2, 1935). And he remained an outspoken critic:

The Italian economic system is being more and more controlled by State Agencies. The recent creation of a Government monopoly for coal, tin, copper and nickel... Industrial *autarky* is expected to reduce the deficit in the balance of foreign payments. So far, however, the task is proving extremely arduous. (September 14, 1935)

#### 4.3.2. On the banks and firms salvage policy

The most important intervention of the Fascist government in the real economy during the nineteen-thirties was undoubtedly the salvaging of industrial firms and banks in financial difficulties. At the beginning of the thirties, deflationist policy increased industrial difficulties which in turn resulted in losses and precarious occurrences of bank illiquidity and various financial crises. The Bank of Italy had to intervene to alleviate this situation, working to save two of the greatest 'mixed' banks, the Credito Italiano and the Banca Commerciale Italiana, which reduced the operating margin of the deflationary policy. At this point, the end of 1931, the government intervened with the creation of the IMI, and then again in 1933 with the IRI. Einaudi closely studied these developments on the pages of *The Economist*, providing a logical account of them by and large which would seem to imply his substantial agreement with particular regard to the reorganisation of banking system. The creation of the IRI was seen by Einaudi as the last step "towards the speedier liquidation of the frozen assets of the war and post war period (1915-1925)" (February 4, 1933). The first step, Einaudi wrote, had been the salvage of the Banca Italiana di Sconto and the Banco di Roma, creating a special section of the consortium specifically for advances on industrial securities; the second step was the creation of the Istituto di Liquidazioni; and the third was made when, in 1931 and 1932, "the necessity for further alleviation of the banking situation became apparent" (*ibid*), with the creation of the IMI. The latter however did not change the situation because of the "prudent" policy conducted by its chairman, Senator Mayer, and proved "incompatible with a rapid process of liquidation of frozen banking and industrial assets", which could "be better carried out by the IRI" (*ibid*). On April 28, 1934, Einaudi published an important article on the Italian banking system in which he described its new features, particularly the predominance of the public character of credit which had been intensified by the crisis. He explained that the posi-

tion of the banks had greatly changed for the better during the two previous years and maintained that "much of it is now of well-established growth": this was no "mushroom growth. It has survived the crisis of 1893, 1914 and onwards, and 1929-33, it is now guided by men of experience and in its present variety may lie much of its strength".

#### 4.3.3. On the Italian corporative system

The most ideologically striking intervention in the Fascist period was certainly the development of the corporative system and the subsequent cartellisation of the economy, a fact which Einaudi followed with obvious dislike and even perplexity and remarked on in hardly-veiled sarcastic terms. On September 11, 1926, he announced that "Fascism is endeavouring to give unity to industry and commerce, and to subordinate all economic life to government direction". A year later, he went further, saying that "the real point of interest in the economic policy of Italy is the method adopted for reaching the new equilibrium of prices, incomes, wages, public revenue, &c.", but that "the true agency working for a new equilibrium is the idea of a corporate state... [which] substitutes for the free reactions of the individuals the collective deliberations of the corporate representatives of various economic classes" (September 17, 1927). Exasperated somewhat, he concluded: "Only time will show what economic reactions will follow from the compulsory working of this plan" (*ibid.*). By the end of 1928 he sounded almost resigned: "The state assumes more and more the supreme direction of the economic life of the country" (November 3, 1928). In an article of June 14, 1930, he began to evaluate the cost of the by then extensive structure of Italy's new corporative state. And in further analyses, though he allowed that "Corporativism... is making progress" – commenting:

The lessons to be derived from the Italian experiment in the regulation of industry are, among others: (1) regulation cannot stop at one point, viz., wages or hours of labour; it must eventually be extended to all relevant points (2) It cannot be entrusted, if it is to work quickly enough, to too large a body, such as an industrial parliament as a whole; smaller regulating bodies must be created, as such groups or guilds (3) it is possible to regulate everything, subject to the final appeal to the consumer, who cannot be coerced (4) In the Italian system the voice of the consumer is supposed to be felt in the legislative stage, through the Prime Minister's right of assent..." (May 21, 1932), –

he still concluded ironically:

Is free competition's automatic machinery going to be succeeded by the sixth sense of the economic dictator?<sup>28</sup>

Despite the fully-fledged programme of *dirigisme* underway in the country, Einaudi seemed not to believe that the formation of "corporations" was substantially changing the Italian social structure. On November 18, 1933, in the notable "Leading articles" section of *The Economist*, he wrote a piece, unsigned, as customary in that section, entitled "The New Italy" which summarised a speech by Mussolini to the National Council of Corporations. In his speech, the dictator had proclaimed that the general economic crisis was a crisis of the capitalist countries and that Italy's was not a capitalist system but a corporative one. Einaudi's article explained the essence of the corporative solution. In a subsequent article, on December 9, Einaudi mitigated the import of Mussolini's words, maintaining that corporations in no way altered the fabric of Italian society but simply implied its reorganisation. Einaudi claimed that the wider dimension of state intervention through the IRI was not the result of a conscious strategy of cartellisation or the construction of state socialism, but was based primarily on the necessity of rescuing firms and banks in temporary difficulties. In an article of June 9, 1934, he quoted another speech of Mussolini's which accused big business of being the cause of repeated state intervention, having conducted its affairs poorly: state intervention "at the present moment", Einaudi calculated, "is giving aid, through the IRI, to three-fourths of the Italian industrial and agricultural economy".

## 5. THE LAST PHASE OF EINAUDI'S CONTRIBUTION: 1936-1940

From 1936 on, we may identify the last phase of Einaudi's contribution to *The Economist*. The correspondence noticeably took on an aseptic

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<sup>28</sup> Einaudi could not always mute his sarcasm toward Fascist interventionism. For example, commenting on the achievements of the Fascists in the ten years they had so far ruled Italy, he wrote: "From the economic point of view, the leading idea in public speeches has been that achievements such as roads built or improved, lands reclaimed, harbours enlarged, waterworks and electric plants multiplied, railways electrified, towns beautified, have been many and great, and they will in due time bear fruits. In the meantime people must have faith and face the crisis courageously" (article of 5 November, 1932). Then, ironically, he added: "It is, indeed, unfortunate for Fascism... that such achievements are apt only to make themselves felt in the long run, while things are very indifferent in the short run".



tone<sup>29</sup> and certainly became less frequent – 27 articles between 1936 and 1940 and shorter, with judgements conspicuously rarer. The issues dealt with were various: the reorganisation of the banking system, the Bank of Italy becoming a pure central bank on the modern pattern, the country's financial structure, the increasingly autocratic policies, the difficulties of price control and the evil of protectionism. Einaudi still attributed the poor performance of foreign trade to the latter:

imports and exports both remain near the lowest level of the post-War period. This seems to be the inevitable fruit of bilateral balanced agreements, monetary clearing and all the paraphernalia of modern protectionism. (October 9, 1937)

The declaration of war ended Einaudi's regular correspondence with the newspaper, and his last regular contribution, devoted to Italy's finances, was published on June 15, 1940.

#### 6. THE POST-WAR OCCASIONAL CONTRIBUTION

After the Second World War, Einaudi wrote just two articles for *The Economist*, in March 1945 and August 1946. The first was a despatch from Rome entitled "Italy's finances", which discussed the budget report of the Treasury Secretary, Soleri. Regarding Italy's deficit, Einaudi identified the real problem as the size of the extraordinary war and transition-to-peace budget and suggested that:

the first step to be taken is to put a final stop on those recurrent extraordinary expenditures which are the true causes of the permanent gap between revenue and expenditure.

And the first of these continual exorbitant expenditures was the bread subsidy, still a problem since the end of the First World War. This was the occasion for Einaudi to make a partial 'revision' of his judgement of Giolitti. He remembered that it was Giolitti, in February 1921, who originally abolished the bread subsidy, and recognised that this decision finally balanced the state budget that year. At a distance of twenty years from his passionate opposition to Giolitti, after the experience of Fascism and a sec-

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<sup>29</sup> Faucci maintains that this had been so since 1934 but the articles of 1934-35 do not seem substantially different in tone from earlier ones.



ond world war, Einaudi defined his old adversary as "the last democratic liberal statesmen" before the Fascist era.

Einaudi's last published appearance in *The Economist* was in August 1946 and concerned the controversy surrounding the Franco-Italian border. It was, like thirty-eight years earlier when his correspondence with the newspaper began, a letter to the editor. It was signed, and the editorial staff added "Governor of the Bank of Italy and for many years Turin correspondent of *The Economist*" to the name. In the letter, Einaudi explained to the English readers the problems involved in the dispute, trying to offer reasonable solutions, and entreated the Allies not to impose unjust penalties on Italy, an implicit warning not to repeat the errors of the victors towards the defeated made after the First World War:

We are now a conquered country and expect penalties to be imposed. But the renunciation of the Upper Roya Valley offends tradition, national sentiment and just economic interests... To carry out the proposed unjust awards is truly the best method of reviving fascism and nationalism which, in my opinion were dead in Italy as from July 25, 1943.

Our story would remain incomplete if we did not also mention the long and distinguished letter (see appendix) which was written to the editor of *The Economist*, G. Crowther, in June 1944 when Einaudi was still a refugee in Switzerland. Recalling his past contribution to the newspaper ("I was, as perhaps somebody in *The Economist's* staff will remember, for many years your regular Turin (Italian) correspondent"), he enclosed a memorandum "on some possible misunderstandings between Anglosaxon and Italian peoples" which, he said, had been written "merely for your information" and "not necessarily intended for publication". Einaudi confessed his worries about the possibility of post-war Italy ever having a truly democratic system, in the way of the Swiss, Scandinavian, British or American systems. He explained that the pre-fascist Italian system of government had not been a truly democratic one: it was, as in many continental European countries, a centralized system where "once somebody has put his grip on the central piece of the machinery, he is the master of the country". In this sense, Einaudi wrote, "Fascism was only a rampant and corrupt exaggeration of a pathological feature of our public life, viz. the absence of a true public life". But he concluded:

Such reflection as I have made does not purport to say that a democratic system of government ought not to be tried again in Italy. I am suggesting only that general free elections and that a freely elected Parliament will be only the begin-

ning of the story. Democracy will be a reality only if and when Italians will abolish the prefects

Einaudi's greatest political fear for the country was that "the most resolute party will conquer the governmental prefectorial machinery and then there will be again an end to freedom in Italy".

## 7. *THE ECONOMIST* and EINAUDI

In 1954, in Einaudi's last year as President of Italy, *The Economist* dedicated an article to him entitled "A great Italian liberal", full of commendations for his behaviour as president. He was praised for his outstanding achievements despite the very limited powers conferred on him by the post-war constitution, for the exercise of his function as guardian of the constitution and his comprehensive activity in public affairs. The article recognised his decisive influence on the country's economy and finances, laying the foundations of Italy's "remarkable" economic recovery, and identified those such as Menichella and Pella who were carrying on the work Einaudi had begun first as Governor of the Bank of Italy and then as Minister of the Budget. The eulogy concluded in terms which need little comment: words of thanks for the work of "the most distinguished of all foreign correspondents", words which must have certainly filled the old Anglophile with pride and, perhaps, a little sadness:

When President Einaudi retires to his model farm in Piedmont in a year's time, his departure will mark the end of the last link with the great days of liberal pre-fascist Italy. And the forces of integrity, simplicity and love of liberty, already gravely weakened in this country, will suffer a further and, it may be, irreplaceable loss.

Turin, September 1999.

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## A NOTE ON THE ATTRIBUTION OF THE ARTICLES

The attribution to Luigi Einaudi of articles in *The Economist* is by no means an easy task. Primarily this is because, in accordance with the tradition of *The Economist*, the articles were normally published anonymously. In addition, in the words of Walter Layton reproduced at p. 820 below, "in May 1941 the Economist office in Bouverie street was destroyed by enemy action and almost every file or document we possessed was burnt. Certainly no staff records survived".

In 1971, based on manuscripts found in the initial collection of Einaudi's papers and now kept in the archives of the Fondazione Einaudi in Turin, Professor Luigi Firpo, editor of *Bibliografia degli scritti di Luigi Einaudi* (*Bibliography of the Works of Luigi Einaudi*), listed 3815 titles of works by Luigi Einaudi. Firpo's list included less than 50 articles written for *The Economist* between 1915 and 1946. However, the number of articles that could confidently be attributed to Einaudi increased substantially after the disclosure of several thousand papers by the Einaudi family at San Giacomo di Dogliani and subsequent acquisitions of archive materials (all now kept in the Fondazione Einaudi). Further identification of a great number of articles almost certainly attributable to Einaudi was enabled by examination of Einaudi's own correspondence and the evidence provided in 1974 by Graham Hutton, assistant editor of *The Economist* from 1933 to 1939. Comparison between the articles published in *The Economist* from Italian correspondents and Einaudi's writings in *Il Corriere della Sera*, from 1908 to 1925, and *La Riforma Sociale*, also permitted the identification of other articles attributable to Einaudi with a good degree of probability.

In publishing this material, the problem arose of establishing clear-cut criteria for attribution. The present volume thus contains articles which we consider to be of either certain or highly probable attribution to Luigi Einaudi.

— We considered *certain*:

- signed articles
- articles of which draft copies are kept in the Einaudi archives



- articles for which there is clear confirmation in Einaudi's correspondence with the editorial staff of *The Economist*, friends and colleagues
  - articles attributed definitively to Einaudi by Graham Hutton
- We considered *highly probable*:
- articles with the wording "From our correspondent, Turin" or dated Turin; in this case, attribution to Einaudi is highly likely because no other correspondent from Turin has ever been identified
  - articles for which reasonable confirmation exists in Einaudi's correspondence with the editorial staff of *The Economist*, friends and colleagues
  - articles attributed in all likelihood to Einaudi by Graham Hutton
  - articles which bear very strong similarities with Einaudi's writings in *Il Corriere della Sera*: during the period 1920 to 1922, some of these articles are dated Rome, where Einaudi often was in his capacity as a senator. In a small number of cases we also considered of probable attribution those articles which bear only nominal similarity to the writings in *Il Corriere della Sera* but whose timing and other characteristics strongly suggest Einaudi's authorship.

In all, we have attributed 295 articles to Luigi Einaudi. Of these, 139 may be considered certain and 156 highly probable. We wish to emphasize two points:

a) a number of articles which contain some evidence of attribution to Einaudi but outside the above criteria have not been included;

b) particularly in the first years of his correspondence, the articles sent by Einaudi were used by staff writers of *The Economist* to write short notes on the economic situation of Italy: again, such articles have not been included in the present volume unless Einaudi's contribution appeared clear and evident and editorial interpolation very limited.

Each article is accompanied by a note outlining the reasons for the attribution of the article to Luigi Einaudi in accordance with these criteria.

R. M.



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R. M.



LUIGI EINAUDI (1874-1961):  
A PERSONAL INTERPRETATION

Luigi Einaudi was born in 1874 in the small market town of Carrù (Piedmont, Northern Italy). In 1888, his father died, and his mother took the children to live with her family in near-by Dogliani. In 1895, Einaudi graduated with highest honors in political economy from the University of Turin. That university, in the capital city of Piedmont, became his institutional base, as professor and rector, from 1902 until his death 59 years later. For nearly a quarter century – until his dismissal forced by the fascist dictatorship in 1925 – Einaudi also taught courses at the Bocconi in Milan and the Polytechnic in Turin.

Also in 1925, Einaudi resigned as editorial columnist with the *Corriere della Sera* to protest the abolishment of freedom of the press. He continued, however, to write in the *Riforma Sociale*, a journal he had edited since the turn of the century. When the regime prevented the *Riforma Sociale* from publishing in 1935, Einaudi founded the *Rivista di storia economica* and kept it open in implicit opposition from 1936 until he was forced to flee to Switzerland in 1943. During his Swiss exile, he focused on social policy and labor laws, writing the *Lezioni di politica sociale*.

In 1945, Einaudi became Governor of the Bank of Italy and for the next ten years worked constantly at the highest levels of government. Elected to the Constituent Assembly and the first republican legislature, he directed Italy's economic policies (at one point simultaneously head of the central bank, minister of finance and budget, and deputy prime minister) until 1948, when he was elected President of the Republic.

Returning to private life as a scholar and journalist in 1955, he died in Rome in 1961 and was buried in the family cemetery he had designed at the foot of one of his vineyards in Dogliani.

A handful of traits, some known, others less so, some even apparently contradictory, were key to this complex and highly productive life.

The core of Luigi Einaudi's being was his love for his land and his books. Upon graduating from the university, he immediately applied his new training to Dogliani. Concluding that the great agricultural crises of

the Nineteenth Century (depressions and plagues like phylloxera) would not be repeated or could be corrected in the Twentieth Century, he decided that land, even land once farmed then abandoned, would make a good investment. This economic forecast he combined with a desire to recover old plots which misfortune had forced his forebears to sell. In 1897, borrowing to the hilt, he bought San Giacomo, an 18<sup>th</sup> - century house and vineyard gone to ruin. By the time of his death, 64 years after that first purchase, he had built a model farm that validated his academic analyses, but which above all satisfied his most intimate desires.

His library, today moved from San Giacomo to Turin and used by thousands of scholars every year, is the product of a concept different from that of a collector of first editions and rare or beautifully illustrated books. He collected those, too, when fortune smiled. But the driving force was his iron will to trace the development of human thought in all matters related to economic life. Searching out the changing expressions and interrelationships among the social sciences, he used the materials so harvested to lighten the efforts of research with the satisfaction of physical possession.

Einaudi's deep Piedmontese roots led him as a young man not to accept a university chair in Geneva. Later he would reject all attempts to induce him to leave the University of Turin or even to participate in conferences elsewhere in Italy or abroad (is it possible to imagine another President not leaving his country once during a seven-year term?). But this powerful sense of place did not keep him from understanding that change is essential to the development of knowledge and of society.

Of critical importance was his intimacy with the Anglo-Saxon world. For more than three decades he gave the readers of *The Economist* regular insights into Italy's development and its crises. In the 1920s and 30s, Einaudi worked with Carnegie as the general editor of the Italian version of the *Economic History of the First World War* (to which he personally contributed two volumes). In that same period, Einaudi was the Rockefeller Foundation's representative in Italy, enabling young scholars to leave to breathe the air of freedom in the America of Roosevelt even during the darkest years of fascism.

Central to Einaudi's thought, in addition to the values of liberalism and free trade expressed throughout his writings, was his conviction that the sovereign state had become an anachronism. In 1918-19, Einaudi sharply criticized Woodrow Wilson's illusion that the League of Nations could succeed without being able to enforce decisions by force. In 1944, from his exile in Switzerland, he issued an impassioned proposal for a United States of Europe, capable of overcoming petty localisms with new suprana-



tional institutions. In 1956, the published compilation of his presidential memoranda contained a "proposal for an eventual European army".

Einaudi had a very personal commitment to research and teaching. Thousands of sheets covered with his minute handwriting still provide mute testimony to years of hard archival labors. At the same time, he felt deeply the need to reach from the ivory tower to the man in the street. Eight 800-page volumes collect 1,320 of his newspaper articles between 1893 to 1925. And although that alone averages to an article a week for thirty years, Einaudi claimed the compilation would have been more than twice that size had he not excluded purely factual articles or descriptive materials.

On two fronts, the academic and the journalistic, his influence was great. Luigi Einaudi's economic writings between 1912 and 1940 are central to the Italian school of public finance on which Italy's reputation in the study of economics is largely based. The approach to journalism he expressed on the pages of *La Stampa* and the *Corriere della Sera* and 150 other periodicals is a notable example of Italian newspaper writing in this century.

There remains finally the enigma of a man who lived most of his life as a resolute critic of partisan politics (he was appointed Senator in 1919 for academic merit), but who after the fall of fascism suddenly found himself in command of his country's economy and then, despite having earlier voted for retaining the monarchy, was chosen the first full-term President of the new Republic.

For the years 1945 to 1948, the explanation lies in his conviction that his independence from the normal obligations of a political career, together with the assurances he obtained, gave him the opportunity to re-establish the economic stability essential in those critical immediate post-war years.

For 1948 to 1955, the explanation lies in his belief that the historic moment required him to set aside personal doubts so as to facilitate the transition from the monarchy to the new republic.

Once elected, the application of the constitution he had sworn to defend became his daily goal. Others in government understood this was not rhetoric. Private letters in the archives of the Luigi Einaudi Foundation indicate that, on February 18, 1953, when it appeared that the constitution might be changed by a new legislative provision on the nomination of judges for the Constitutional Court, Luigi Einaudi informed the Prime Minister that should that happen, he would convene the two branches of parliament in joint session to elect a new president who would sign such a law, "something I do not intend to do, because my duty is to hand intact to my successor the powers established by the Constitution".

Einaudi's defense of the new republic went beyond the juridical. At the

Quirinal palace in 1954, Einaudi formally received the father of the seven Cervi brothers, peasant farmers all seven of whom had been executed by the Nazis in 1943. The cold war was at the height. The Cervis were known to have been members of the Communist Party. In a signed article for the press, the President of the Republic described the Cervis as national heroes and identified himself with their love of land and innovation. The independent critic had never disappeared, and was calmly using ideas and values to transcend partisanship, advance civil society and consolidate the republic.

In 1964, Luigi Einaudi's heirs moved his books and papers to Turin and donated them so as to ensure their continued life. At the Luigi Einaudi Foundation, new generations of scholars use them to promote international understanding grounded in the social sciences and in the best Piedmontese tradition.

The archives of the Fondazione Luigi Einaudi in Turin conserve Einaudi's letters and manuscripts, that made possible the identification of the articles for *The Economist* collected in these two volumes. What led him to write them was perhaps best expressed by Luigi Einaudi himself. In the prefatory note to *Gli ideali di un economista*, Firenze, La Voce, 1921, Einaudi wrote:

This is a collection of articles that are not strictly economic in nature, but are of a kind each of us feels driven from time to time to write at the margins of our particular field of knowledge, and then to set loose upon the world, almost as proof that we do not feel ourselves to be merely economists, or geologists, or chemists, but that we live also the life of others, and in particular that of our community.

The collection is not complete so as not to unnecessarily increase its volume, but it is perhaps large enough to reveal what are... my obsessions: schools and education, England, the formation of Italy understood through the history of Piedmont, the need for supranational government... There is also talk of war, with what I hope is a logic not at variance with my earlier predilections, with respect toward enemies and with the eye focused on the traditions of my country.

Turin, at the end of 1920

*Written by Luigi R. Einaudi, drawing on recollections of his grandfather and on an essay by his father, Mario Einaudi (1904-1994), Luigi Einaudi's oldest son, who left Italy in 1933 for the freedom of the United States, then returned to create the Fondazione Luigi Einaudi.*

## ITALIAN FINANCE

*In the Lobby of the Chamber*

### FROM 1908 TO THE FIRST WORLD WAR, 1908-1918

THE Italian Chamber of Deputies, which has just opened its year (see of March 27) has begun its work with a series of resolutions that the large majority of voters would have been mainly devoted to public works, the recovery of the railways of great interest, and to the aid of national defence, and to the relief of the country so troubled has been in the main, especially recently, public interest, and a demonstration of confidence to sustain a reduction of taxes. As yet no definite scheme of tax reform has been made possible by the Government, and now highly probable that no such scheme will be put forward before the Parliament. On this subject, that will be done with a view to the future of the country, and the next general election. The Government has to stop the huge surplus of the last years has been available for the national expenditure, so that nothing is left for the taxpayer. A statement of high sounding financial Mr. Sidney Johnston, formerly Minister, who it is to be observed, is not a regular member of the present Government, has published in one of the last numbers of the *Giornale d'Italia*, the leading financial paper, a critical examination of the Italian budget, and has shown clearly that the surplus which the Minister of the Treasury was so proud to show in his *Rapporto Finanziario* of November last, was a surplus of surplus. Some days ago Mr. Barba, the President of the Finance Committee of the Chamber of Deputies on War and Finance, was asked, during it is his duty to warn the Parliament and the public opinion as to the way the public accounts are managed. It will suffice to point out the history of the manipulation, the account of the bank savings for the year 1906-07 is made to show a surplus of 30 million lire, but the

1. March 21, 1908, p. 457. The work reported, unpublished in the original, is in the *Giornale*.





1.

ITALIAN FINANCE

*To the Editor of The Economist*

Sir, — The note on *relief for Italian taxpayers* which you publish in your issue of March 7<sup>th</sup> is subject to some criticism. While it is correct to say that the large surpluses of recent years have been mainly devoted to public works, the increase of the salaries of civil servants, and to the cost of national defence, it is to be added that the money so applied has been in the main squandered to satisfy petty interests, and it is not correct to consider as certain a reduction of taxation. As yet no definite scheme of tax reform has been made public by the Government, and it is highly probable that no such scheme will be this year seriously laid before the Parliament. Or if it is laid, that will be done only with a view to win the votes of the constituencies at the next general elections. The reason is not far to seek; the huge surpluses of the last years have been swallowed by the increased expenditure, so that nothing is left for the taxpayers. A statesman of high standing (probably Mr Sidney Sonnino, formerly Premier, who, it is to be observed, is not a regular opponent of the present Government) has published in one of the last numbers of the *Nuova Antologia*, the leading Italian review, a critical examination of the Italian budget, and has shown clearly that the surplus of which the Minister of the Treasury was so boastful in his *Esposizione finanziaria* of November last, was a fictitious surplus. Some days ago Mr Rubini, the president of the *Giunta generale del Bilancio* (Committee of the Chamber of Deputies on Ways and Means) resigned, thinking it to be his duty to warn the Parliament and the public opinion as to the way the public accounts are manipulated. It will suffice to quote only one instance of this manipulation: the account of the State railways for the year 1906-07 is made to close with a surplus of 50 million lire; but this

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1. March 21, 1908, p. 617. The article, signed, was published in the section: "Letters to the Editor".

result is obtained by the device of putting some 10 million lire of ordinary expenses to the charge of a reserve fund, which should be devoted only to expenses of extraordinary character. From the residue, 40 million lire, other vast sums should be deducted if the accounts were regarded from the point of view of a joint-stock company and not made up with a view of deluding the taxpayers. But the Government think necessary to muster a surplus on State railways of 50 millions, as a minor sum would have brought too rudely to the mind of the public – firstly, the fact that the general surplus is not so great as was said; secondly, the necessity of a severe administration, even by the State railway; thirdly, the fact that the State railway cost for interest and sinking fund of a part of the public debt a sum vastly greater than the so-called surplus.

The Italian public finance and the economic development of Italy are to-day extremely interesting. But I fear that the correspondents of English journals do not convey a true idea of it to their readers. – Yours truly,

LUIGI EINAUDI

Turin, March 9, 1908.

## 2.

### PARALYSIS OF THE STOCK EXCHANGES IN ITALY

*From a Turin Correspondent*

More than eight months have passed since the Stock Exchange crisis in Italy reached its highest point. This crisis, though not as violent as the American one, nor comparable to it in extent and consequences, was very serious in several cities, such as Turin, Milan, and Genoa, and was followed in certain industries by a sensible shrinkage of business.

In Italy a wave of economic prosperity, increasing in volume since 1902, had been accompanied by a steady rise in the quotations of our Stock Exchange securities. This rise, slow and gradual at first, was little

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2. July 25, 1908, pp. 167-168. The article, unsigned, was published in the section: "Foreign and Colonial Correspondence". It is the first of a series of three articles. Its attribution to Luigi Einaudi is probable because: a) of the wording "From a Turin correspondent"; b) of a letter from the Editor *The Economist*, Francis Hirst, on July 20, 1908 (see appendix); c) the treatment of the argument bears strong similarities with an article published in *Il Corriere della Sera*, November 18, 1908, entitled "Dopo un anno".

by little intensified, until in 1905 and 1906 the pace became very rapid, and in some cases quite furious. The magnificent dividends paid by some fortunate undertakings, the colossal gains made by the holders of shares which had gone up in value, provoked a speculative movement, which spread from the professional stock jobbers to other classes of the population, many of them entirely ignorant about investments. At Genoa, the people who spent the whole day in Piazza Banchi (the square where the Exchange is situated, near the harbour) had become a motley crowd of Exchange agents, commission agents, bankers, members of the liberal professions, tradesmen, employees, &c. The whole town was speculating on the Stock Exchange, even the men and women of the people, workmen, porters from the harbour, maidservants. At Milan, at Turin, and even at Rome the halls of the Exchanges, usually quiet and used only by professional operators, overflowed with a throng drawn from all classes of the population.

It is no wonder that in the midst of this universal excitement shares should go up in price continually. In order to put English readers in a position to estimate the serious nature of the Italian crisis, it is useful to sum up the variations in the quotations of Italian shares in the Italian exchanges. The best index for this purpose is found in an abstract published every month by the *Economista d'Italia* (a financial paper published in Rome). From the data contained in these abstracts, have taken out a series of *index numbers*, equal to the *relation* between the *nominal price*\* of the chief shares quoted in the Italian Exchanges at a certain date, and the *actual current price* of these same shares at the date indicated.\*\*

First of all, then, let us examine the index numbers at the end of each year from 1899 to 1904:

End of December, 1899 .....	134
" " 1900 .....	126.35
" " 1901 .....	120.38
" " 1902 .....	125.34
" " 1903 .....	144.45
" " 1904 .....	148.24

As this shows, after the economic crisis of 1899-1900, which had its rebound in Italy and lowered the index number of the actual current prices

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\* *i.e.*, the price of issue.

\*\* Suppose, *e.g.*, the nominal price of shares to be 100, then if the actual price of these same shares on a given date is 134, we have an increase of 34 per cent. on the nominal price.



from 134 to 120.38, there was a continuous rise, which brought the actual price at the end of 1904 up to the high average of 148.24.

In the years following 1905 the movement was more marked, so that it seemed advisable to follow the variations in prices month by month. But it should be noted that the statistics of the *Economista d'Italia*, on which we are working, do not refer to the same number of shares every year. Thus in 1905 178 shares are examined, in 1906 the shares under consideration increase to 241, in 1907 and in 1908 they rise to 243. The nominal value of these shares increases still more in proportion, because not only are new companies formed, but existing ones increase their capital. The rise in the quotations of shares in the Exchange provoked, specially in 1905, the creation of new "società anonime", and the transformation of old private enterprises and of companies under a collective name into "società anonime per azioni", or limited liability companies. We must note also that the shares under consideration are in all cases either shares of "società anonime per azioni" (which may be explained at length in English as joint-stock companies with only one set of shareholders, all with responsibility limited to capital subscribed), or, on the other hand, of "società in accomandita per azioni" (joint-stock companies with two sets of shareholders, the one with responsibility limited to capital subscribed and the other with unlimited responsibility, these latter being the managers and directors of the company). This means that the debentures, both of companies and of the State, of provinces and of towns, are excluded. With this preliminary caution, I proceed to give the results of a table I have drawn up showing the history of the quotations of shares from 1906 on.

The rise, which reached its first maximum in September, 1905, and its second in March, 1906, had, by the autumn of 1906, received a severe blow, which was succeeded, after an ephemeral attempt at recovery in February, 1907, by a real collapse, in consequence of which the quotations had fallen at the end of October, 1907, when the North American crisis was also at its worst, down to the lowest point of 129.44. At this moment a large Italian joint-stock bank, with 50 million lire of capital, the Società Bancaria Italiana, was threatened with bankruptcy; at the same time the public and the newspapers were crying out against the "black band" of bears who made the shares go down day after day. A strong association, formed under the auspices of the Banca d'Italia, with the Banca Commerciale Italiana and the Credito Italiano at its head, intervened partly to save the Società Bancaria, which was reorganised and provided with fresh capi-



tal, and partly to prop up the price of shares, which threatened to fall to still lower levels. But when this association of banks had attained its object, which was primarily to stop the run of depositors on the banks, and to sell some of the shares of which their safes were full, the artificial stimulus which had restored shares to an average of 137.07 in December was withdrawn, and since then they have varied again between 126 and 132. The paralysis in the Italian Stock Exchanges is now complete; very little business is done at Genoa, Milan, and Turin, which are the principal exchanges in Italy, and the public, unable to recover the losses they have suffered in the past, give vent to their feelings by demanding criminal proceedings and prison for the bears, and strict regulations for the Stock Exchanges.

*(To be continued)*

### 3.

## THE ITALIAN BOURSES. II

### THE MOTOR CRASH

*From a Turin Correspondent*

It must be noted, that though the average loss in the current quotations of shares on the Stock Exchange is equal to the difference between 172.51 (the maximum of March, 1906) and 130.30 (at the end of June, 1908), this loss is rather unequally divided among the different groups of industries. Below we publish a table in which we set side by side the nominal and the actual prices of the shares quoted on the Italian Stock Exchange at different times: At the end of January, 1905 (the beginning of the Stock Exchange boom), at the end of September, 1905 (the first maximum), at the end of March, 1906 (the second maximum), at the end of November, 1906 (the first Stock Exchange crisis), at the end of October, 1907 (the second and more serious crisis on the Stock Exchange), and at the end of June, 1908 (the close of the first six months of 1908, which were six months of liquidation).

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3. August 22, 1908, pp. 346-348. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable because: a) it is the continuation of the previous article of July 25, 1908; b) of the wording "From a Turin correspondent"; c) of a money-order from *The Economist*, dated September 4, 1908, covering Einaudi's contribution to the paper for August of that year.

Since then, at the July liquidation, there has been a further fall of values to 129.03, which is the lowest point touched since the year 1902. But I have already pointed out in my former article that the present fall is due to the stagnation which is to-day acute in the Italian exchanges, after they were abandoned by the powerful interests which had given an artificial stimulus to the quotations at the close of 1907. So that we are justified in limiting our observations to the first six months of the year, and neglecting the further fall in the month of July.

Before coming to details we must state that the shares under consideration in the following table are only the principal shares quoted on the Italian Stock Exchanges. We have not reckoned in the shares which are only quoted spasmodically, or have no importance; and, above all, we have not included the shares issued by companies which did not ask for admission to the quotations on the Stock Exchange. These last shares are taken up privately or by the banks, and there are a great many of them, because numerous prosperous companies, chiefly for fiscal reasons, do not care to have their shares quoted on the Stock Exchange.

The companies under consideration are divided into various groups; these numbered 10 in 1905, and grew to 12 in 1906, by the accession of the group of companies producing motor cars, and also because the group of "companies dealing with immovable property", was taken out of the group of "various industries" on account of its special importance. (See tables at pp. 9, 10, 11).

The story told by these tables varies from group to group. Alone and isolated stands the group of the 15 (afterwards 16) motor car works, which, at the end of March, 1906, had reached the actual price of 162,100,00 lire, or 678.95 per cent. of the nominal price of issue, which was altogether hardly 23,875,000 lire. The period from March, 1906, was that in which the motor car shares enjoyed the greatest favour, specially on the Turin Stock Exchange, and gave rise to unrestrained speculation. The impetus to the follies committed in this industry was given by the celebrated "Fabbrica Italiana Automobili Torino", known all over the world under the name of "Fiat". Founded in 1899 with a capital of 800,000 lire, in shares of 200 lire, it led for some years a hard life, so much so, indeed, that its shares could be bought for a little over 100 lire. In 1900 the company lost 18,070 lire, in 1901 another 9,849 lire, in 1902 it began to gain 64,034 lire, in 1903 it gained 91,525 lire. Hitherto, it had not paid any dividend, but in 1904, it paid a dividend of 6 per cent., and in 1905 the net profit rose to 2,136,130 lire, and the dividend paid to 20 per cent. This great prosperity

## 1905

Name of Groups	Number of joint stock companies under consideration in 1906	Nominal price of the shares on January 1, 1905	Actual price of the shares at the end of January, 1905	Index number, or relation between the actual price at the end of Jan. '05 and the nominal price on Jan. 1, '05	Actual price of the shares at the end of September, 1905	Index number, or relation between the actual price at the end of Set. '05 and the nominal price on Jan. 1, '05
		Lire	Lire		Lire	
Banks.....	17	493,374,000	687,776,162	139.40	766,568,390	155.37
Railways, tramways, navigation.....	23	641,430,000	833,818,000	130	894,114,000	139.39
Mines, foundries, iron and steel engineering works, &c. ....	25	185,897,900	339,575,000	182.07	437,871,400	235.54
Electric and other lighting (gas, &c.)	14	89,075,000	133,207,000	149.54	162,075,000	181.95
Sugar industry.....	16	80,950,000	172,444,000	213.05	202,215,000	249.80
Water supply .....	5	40,900,000	72,940,000	178.24	82,656,000	202.09
Chemical products ....	11	53,350,000	85,979,500	161.16	109,479,500	205.21
Weaving and spinning (cotton, wool, waste, silk, &c.).....	30	150,650,000	210,601,000	139.79	223,603,000	148.42
Grinding of cereals, manufacture of macaroni, &c. ....	4	28,500,000	65,896,000	231.21	65,672,000	230.43
Various industries.....	33	171,775,000	290,649,000	169.20	332,627,000	193.64
Total.....	178	1,935,901,900	2,892,915,662	149.44	3,276,881,290	169.27

induced the directors to commit some errors; first of all, to divide the old shares of 200 lire into eight new shares of 25 lire. These new shares, thanks to the splendid dividends that had been paid, and to the still higher dividends that were hoped for in the future, began to rise uninterruptedly, so that at the end of December, 1905, they were worth 1,200 lire, at the end of January, 1906, 1,650 lire, at the end of February 1,700 lire, at the end of March, 1906, at least 2,000 lire. There were even days on which the price rose to 2,300 lire a share (92 times the nominal price of issue!), and many persons at Turin bought these shares in the hope that they would rise to 3,000 lire and over. At this point the directors, thinking that a share of 2,300 lire was too large for the medium and the small capitalist, proceeded to divide it a second time into two and a-half shares, each of 10 lire; to



# 1906

Name of Groups	Number of joint-stock companies under consideration in 1906	Nominal price of the shares on January 1, 1906	Actual price of the shares at the end of March, 1906	Index number, or relation between the actual price at the end of March, '06, and the nominal price on Jan. 1, '06	Actual price of the shares at the end of November, 1906	Index number, or relation between the actual price at the end of Nov. '06, and the nominal price on Jan. 1, '06
		Lire	Lire		Lire	
Banks.....	17	559,300,000	915,418,000	163.68	861,296,000	154
Railways, &c. ....	28	689,650,000	896,859,000	130.04	877,522,000	127.24
Mines, &c. ....	37	246,526,500	533,936,900	216.58	460,783,320	186.91
Electric light, &c. ....	21	116,950,000	262,351,000	224.33	236,759,000	211
Sugar industry.....	18	108,200,000	253,770,000	234.54	206,429,000	190.7
Water supply .....	6	57,900,000	103,708,000	179.11	98,892,000	170.8
Chemicals.....	9	60,550,000	121,336,000	200.39	120,179,000	198
Weaving, &c. ....	36	178,150,000	270,251,000	151.75	274,657,000	153.7
Cereals, &c. ....	9	36,500,000	70,916,000	191.37	59,950,000	164.3
Manufacture of motor cars.....	15	23,875,000	162,100,000	678.95	105,184,000	440.6
Land companies .....	8	103,876,500	137,612,818	132.48	123,371,000	119
Different industries ...	37	156,325,000	304,552,000	194.82	291,935,000	186.3
Total.....	241	2,337,803,000	4,032,840,718	172.51	3,716,957,320	159

# 1907

Name of Groups	Number of joint-stock companies under consideration in 1907 and 1908	Nominal price of shares January 1, 1907	Actual price of shares end of October, 1907	Index number, or relation between actual price at end of Oct., 1907, and the nominal price on Jan. 1, '07
		Lire	Lire	
Banks.....	17	589,300,000	728,961,000	123.70
Railways, &c. ....	28	695,650,000	806,000,000	115.86
Mines, &c. ....	39	281,206,500	402,021,820	142.96
Electric light, &c. ....	21	128,400,000	206,690,000	160.97
Sugar industry .....	21	107,450,000	160,500,000	149.37
Water supply .....	6	61,900,000	92,056,000	148.71
Chemical products .....	11	70,450,000	107,540,000	152.65
Weaving and spinning .	36	190,150,000	273,460,000	143.81
Cereals, macaroni, &c. .	9	37,200,000	42,570,000	114.44
Manufacture of motor cars .....	16	37,125,000	27,970,000	75.34
Land companies .....	10	161,250,000	137,137,500	85.05
Different industries .....	29	161,023,000	278,300,000	172.83
Total .....	243	2,521,104,500	3,263,203,320	129.44



1908

Name of Groups	1908		
	Nominal price of shares on Jan. 1, 1908	Actual price of shares at end of June, 1908	Index No. or relation between actual price at the end of June, 1908, and the nominal price on Jan. 1, '08
	Lire	Lire	
Banks.....	646,500,250	817,200,000	126.44
Railways, tramways, &c. ....	739,650,000	840,000,000	113.57
Mines, &c. ....	291,956,000	409,732,740	140.34
Electric and other lighting (gas, &c.)....	134,150,000	236,200,000	176.07
Sugar industry .....	116,450,000	183,100,000	157.23
Water supply .....	61,900,000	87,243,000	140.94
Chemical products .....	75,750,000	121,710,000	160.67
Weaving and spinning .....	201,900,000	286,900,000	142.10
Grinding of cereals (making of maca- roni) .....	37,200,000	38,214,000	102.72
Manufacture of motor cars .....	41,900,000	27,100,000	60.36
Land companies .....	152,250,000	157,195,000	103.25
Different industries .....	176,673,000	286,500,000	162.16
Total .....	2,679,279,250	3,491,094,740	130.30

these, however, they set the nominal value of 100 lire, stating that this was in reality the value of the company's property. Many persons predicted that the new shares would fly up rapidly; all the more so, because at the end of 1906 the balance-sheet of the "Fiat" showed a net profit of 5,287,083 lire, a colossal figure for a paid-up capital of 800,000 lire which had been inflated to 9,000,000 lire, and a dividend of 40 per cent. was paid on the new shares of 100 lire, which corresponded to 400 per cent. on the paid-up capital. But ruin was already waiting in the pathway of this flourishing company. Its prosperity had provoked the formation of numbers of rival companies; in our abstract we include only 15 which were constantly quoted on the Stock Exchange, but in reality there were as many as 66 companies for the construction of motor cars proper, and 56 works for making the carriage part and other motor car accessories, with a nominal capital of 141,413,000 lire.

Some of these companies were really formed in order to manufacture motors, and motor accessories, but many were launched with the sole object of making their shares go up on the Stock Exchange, and of selling them to the voracious and ignorant public.

But the day of reckoning could not be put off. Half way through 1907 the manufactories were choked up with unsold motor cars; the Northern United States, great purchasers of motor cars of the "Fiat" and "Itala" make, hard hit by the crisis, abruptly stopped purchasing. The "Fiat" balance-sheet of 1907 showed a loss of 5,922,542 lire, in addition to the loss of considerable reserves accumulated in the past; and not only was the company unable to pay any dividend, but it was forced to confess that the 100 lire shares were now only worth 34.19 lire, and to call on the share-holders to make them up to 100 lire again by paying up 65.85 lire per share.

The bubble was definitely pricked; the latest shares of 100 lire nominally which in November, 1906, stood at 750 lire, had fallen in January, 1907, to 505 lire, in May to 410 lire, in August to 200 lire, in October to 80 lire, in April, 1908, to 40 lire, in May to 34.50 lire, and in June (after the fresh payment of 65.85 lire per share) they stood at about 100 lire. The Turin Tribunal has begun penal proceedings against some of the directors of the "Fiat" for jobbing the shares (spreading fraudulent rumours which make the shares go up), and for falsifying the balance-sheet of 1906, which, as we said above, showed a net profit of 5,287,083 lire. The rival manufactories, which sprang up like mushrooms in the days of the Stock Exchange madness, are in no better plight. Any one who goes outside the town of Turin sees scattered about in the suburbs great factories which are deserted, though quite new. They are manufactories of motor cars which have had to close for want of work.

We have given this Turin episode of the "Fiat" at some length, because of the world-wide fame of this make of motor car. But in all the big Italian towns there were similar cases; at Milan, at Genoa, at Florence, at Rome. It is the story of all crises which has always repeated itself, specially in countries which are industrially young.

## 4.

## THE ITALIAN BOURSES. III

## INDUSTRIALS AND BANKS

*From a Turin Correspondent*

Another very interesting group is composed of the sugar industry, of the grinding of cereals, and of mines, foundries, iron and steel, and engineering works, &c. These three groups are, perhaps, the most conspicuous example in Italy of industries which are both protected and receive Governmental favours. The most scandalous instance is, perhaps, the sugar works. In a preceding number of the *Economist* a regret was expressed that the Italian Government should keep up the price of salt to 40 centesimi (about 4d) per kilogramme. But what can be said about sugar, which is burdened with exorbitant taxes which do not go exclusively to the benefit of the State, but partly to the producers of sugar? These are the taxes with which sugar is burdened in Italy:

	Duty on Foreign Sugar in Lire per Quintale	Excise on Italian Sugar in Lire per Quintale	Protection in Favour of Italian Manufactures in Lire per Quintale
Raw sugar .....	88	67.20	20.80
Refined .....	99	70.15	28.85

Even supposing that all the protective duty does not go into the pockets of the manufacturers, they own that they gain from 15 to 20 lire per quintale of sugar produced. With an average production of one million quintali this makes a tribute of 15 to 20 millions of lire per annum exacted by the 32 manufactories of sugar existing in Italy from the Italian consumers. And because a clause in the Convention of Brussels would oblige the Government to reduce the protective duty to a maximum of 5.50 and 6 lire per quintale as soon as Italy became an exporting nation, the 32 sugar manufactories have joined together into a Sugar Union, which is a genuine trust, with the object of limiting the production a little below the quantity required for internal consumption at the present

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4. August 29, 1908, pp. 394-396. The article, unsigned, was published in the first section of the newspaper. Being the continuation of the two previous articles of July 25 and August 22, 1908, its attribution to Luigi Einaudi is probable because of the reasons above (see no. 3).



prices. And hence the Italian consumer pays for sugar retail 1.50 lire the kilogramme, and consumes little more than 3 kilogrammes a head, less even than is consumed in Turkey. To return to our subject, the scandalous protection enjoyed by the sugar industry, and the high profits made by it caused the shares to rise on the Stock Exchange, and by the beginning of 1905 for every 100 lire of nominal price the shares were worth 213 lire, and in September they had got up to 249 lire. This was excessive capitalisation, given the possibility of the import duties being reduced, and with them the profits; and it was only natural that the prices should fall again in June, 1908, to 157.23 lire for every nominal 100 lire (in July, 1908, to 145.12 per cent.).

The industry of grinding cereals is another case of unjust and scandalous protection. Wheat from abroad pays an import duty of 7.50 lire the quintale on entering Italy. This is, anyhow, a very high duty which increases the cost of living beyond measure for the benefit of land owners. But the harm done is still greater, because foreign flour, which ought in proportion to be charged a duty of 10.15 lire, pays instead 12.30 lire. And thus the consumer of flour pays a protective duty of 10.15 lire per quintale to the owners of corn land, and another 2.15 lire to the millers. The protection granted to land owners keeps up the value of their corn land; the protection given to the millers made the price of the shares of joint stock companies for milling go up from 100, the nominal price, to 231.21 in January, 1905, to 230.43 in September, and made it possible for the promoters to reap golden profits by selling the shares to the worthy public. Here, too, the precarious profits due to protection could not allow of such high capitalisation, and they were also reduced by the rivalry of new producers and by bad administration. Hence it is true that the actual price has at the end of June, 1908, come down to 102.72 per cent. of the nominal price (at the end of July to 98.06).

In the group of mines, foundries, iron and steel engineering works, &c., the profits in the past and those gained to-day are due partly to protective import duties which are very high, partly to the supplying of iron-plates, cannons, and ships for the army and the navy, and lastly to the pressing demands of the State Railway department, which was obliged after July 1, 1905 (the date when the railways passed over from the private companies to the State) to make large purchases of railway materials. These causes made the price of the shares go up from 100 lire nominally, to 235.54 lire actually in September, 1905. But, after that, the drop was continuous, so that the shares on June 30, 1908, were no longer worth more than 140 lire for every nominal 100 lire (at the end of July 132.86).



It must be acknowledged that this drop was due to the campaign initiated by Signor Ferri, editor of the socialist paper, the *Avanti*, of Rome, against the serious abuses in the administration of the military marine, which was paying, for example, exorbitant prices to the Steel Works Company of Terni, for iron plates for men of war. Signor Ferri made the mistake of giving a prominently socialistic character to his struggle against malversation in the military marine, and of mixing up with his criticisms of the administration of the marine personal attacks on Admiral Bettolo, Minister of Marine at the time. Hence the Tribunal at Rome had to sentence him to prison, thought the Chamber of Deputies would not allow the sentence to be carried out.

But the seed scattered by him fell on good ground. Parliament nominated a commission of enquiry, which revealed abuses and suggested the appropriate remedies; public opinion woke up, and the newspapers, with the great Conservative paper of Milan, the *Corriere della Sera*, at their head, insisted firmly on the necessity of carrying out the conclusions of the commission of inquiry. To-day the Government pays more reasonable prices for its iron plates, and the profits of the companies who supply them, though smaller, are more likely to last.

The other groups do not offer features of much interest. The price of the shares of companies dealing with immoveable property varies a good deal (132.48 per cent. in March, 1906, 85.05 per cent. in October, 1907, and 103.25 per cent. in June, 1908). This, after all, is quite natural, as the undertakings in question are risky with distant returns, and aim at raising the value of large, badly cultivated estates, and at building houses in big cities. The group of railways, tramways, and navigation stands rather low (it went down uninterruptedly from 139.39 per cent. in September, 1905, to 113.57 per cent. in June, 1908). But this drop is easy to understand, because, after 1905, the three large railway companies (the Mediterranean, Adriatic and Sicilian), which used to work the railways now belonging to the State found themselves, so to speak, with an unoccupied capital of 460 million lire; and the two first, instead of contenting themselves with taking every year from the State treasury the stipulated annuities – a course which would have given the shares almost the character of debentures guaranteed by the State – preferred to take part in private companies, specially in metal and machinery works. This decision, which was much criticised by certain people as only serving to keep the directors and employees in their present position, whereas, otherwise, they would have become practically unnecessary, has undoubtedly contributed to give a character of uncertainty to their shares, and to reduce their value. This group is

also affected by the world-wide crisis from which maritime navigation is suffering, which has forced Italian companies to lower the fares for emigrants to and from America in order to meet the competition of the German navigation companies.

The shares, however, of the companies for spinning and weaving wool, cotton, hemp, silk waste, &c., keep at a fairly high level. The actual price, which was 139.79 per cent. of the nominal price in January, 1905, rose to 154.17 per cent. in November, 1906, and now (June, 1908) it stands at 142.10 per cent. There had been very little speculation in the shares, and so they did not fall sensibly. This is, indeed, a protected industry, and there are even export duties, as, for example, on silk waste, which are very hard on silk spinners. But it is necessary to acknowledge that in many instances the manufacturing spinners and weavers have made striking advances in technique, and that they could to-day, without difficulty, give up a large part of their protection without suffering sensibly. This is the reason why the actual prices of their shares seem, as a rule, fairly stable; another reason is that the promoters did not attempt to sell their shares to the public at high prices in order to buy them back afterwards at a low rate after the crisis.

A last word on the banks. With the exception of the powerful and well-managed Banca d'Italia, which is the chief Italian joint-stock bank of issue (the two other banks of issue, the Banco di Napoli and the Banco di Sicilia, are public banks administered by delegates from the State and the Southern and Sicilian provinces), and the Istituto Italiano di Credito Fondiario, which is concerned exclusively with mortgages on lands and houses, the other banks included in this group are almost all of the German as opposed to the English type. They are, that is to say, not only concerned with deposits, discounts, and anticipations, but they help manufacturers to set up in business, they underwrite shares in order to place them at a premium among their clients, and they take an active part in speculations on the Stock Exchange. They are almost forced to do this by the keen competition they meet with in their search for good commercial paper to discount, from the savings banks and the popular banks. It must be remembered that there exists in Italy the Cassa Depositi e Prestiti, which is really a great State bank, which receives by means of the Post Office Savings Banks about 1,500,000,000 lire of deposits and lends it to the State railways, to provinces and to towns. In this way, the issue of debentures of provinces and towns is almost entirely taken away from the ordinary banks. The

savings banks which are autonomous (that is independent of the State) received at the end of 1906 1,957,579,047 lire of deposits, and to-day the deposits are close upon 2,200,000,000 lire. If we add to this the capital of the savings banks (the only savings bank of the Lombard provinces, perhaps the biggest in the world, has a capital of 100 million lire in addition to 700 million lire of deposit), and also the capital, the reserves and the deposits of the popular banks, we see how it is that savings banks and popular banks are successful in competing with the ordinary joint-stock banks for discounting good commercial paper. These latter, therefore, in order to make high profits, have to engage in risky operations of industrial credit and in speculations on the Stock Exchange, which is an important cause of the instability of their shares.

This brief survey of the changes in the quotations of Italian shares has shown that the rise which appeared in 1905 and in 1906 was largely artificial. Nothing, therefore, was more natural than that there should be a reaction in 1907, and that this should continue into the first six months of 1908. An improvement can only come when the inheritance of the past is swept away, and confidence can be felt in a natural and lasting prosperity of industry and commerce.

Not everybody in Italy is persuaded of this truth. Many speculators on the Stock Exchange, accustomed to gain large sums easily by playing with the rise, and many imprudent and greedy capitalists who have seen the price of the shares they bought in their folly go down, cry out against the black band of bears, and call for Government measures. The Government has sent the police into the houses of certain well-known "bears", and has begun criminal proceedings for stockjobbing at Genoa, Milan and Turin. Further, it has presented to Parliament a Bill about Stock Exchanges containing most severe restrictive rules. It is probable that the criminal proceedings will not come to anything owing to the difficulty of proving offences of this nature, and, at most, they will serve to persuade the capitalists, who were foolish enough to let themselves be fleeced of their money, that the blame rests with the "bears", and not with their own blindness and greed. The effects, however, of the Stock Exchange Bill if approved by Parliament, will not be so innocent. Side by side with certain good proposals, notably those for reducing the taxes for Stock Exchanges contracts, it contains other proposals which will hinder and limit beyond measure the work of the operators on the Stock Exchange, honest and dishonest alike. It seems a strange thing that the Italian Government should have set itself to ape the German legislator after



he had recognised the necessity of reforming his disastrous Stock Exchange law. But public opinion, which is made up by incompetent people, called on the Government to do something, and it is no wonder that to satisfy the clamour of the market place it should be unable to find anything better to propose to Parliament than prohibitions and inquisitions on a vast scale.

## 5.

### THE ITALIAN BUDGET. I

*By an Italian Correspondent*

The terrible disaster which has befallen one of the most beautiful regions of Italy has called forth the sympathy and assistance not only of Italians, but of foreigners. Large voluntary subscription funds have been raised, but they are not enough; and it seems probable that the Government will devote to the most urgent cases some thirty million lire, part of the surplus realised in the last financial year (1907-8). But the sums needed are vastly larger than that figure, and as the current Budget and next year's will close (apart from the disastrous earthquake) with small surpluses, it is evident that Italy will have to take one of these three courses: retrenchment of expenses, new taxation, or debt. Any one of these courses would be readily accepted, as in these days of misfortune the patriotic feeling of the nation has been aroused to the highest point. It is a pity that the Italian Budget is no more in the brilliant situation which, from 1901 to 1907, would have permitted the application of thirty or forty millions of lire for several years to the aid of the desolated provinces.

The Budget speech of the Minister of Finance and the publication of important Parliamentary documents make it possible to give a picture of Italian finance up to date. We are at a turning point in the financial history of our country, as will be seen from the following tables, which set out the Budget surplus or deficit for the last 18 years:

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5. January 9, 1909, pp. 56-57. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is certain because of the galley proofs, sent by the editorial staff of *The Economist* on January 1, 1909, in the Einaudi archives.



Years of Deficit	Lire Italiane
1890-91 .....	- 84,672,363
1891-92 .....	- 48,138,805
1892-93 .....	+ 9,343,765
1893-94 .....	- 58,855,904
1894-95 .....	+ 409,077
1895-96 .....	- 1,633,150
1896-97 .....	+ 126,931
1898-99 .....	- 1,105,573

The years from 1890 to 1898 were among the worst in our national finance. The Abyssinian War, the banking crisis, the Protectionist tariff, the riots in Sicily, in the Southern Provinces, and in Milan exercised a sinister influence on the State Budget. The surpluses were few and small, and the deficits great. But the deficit taught our governing classes the beneficent lesson of parsimony and curtailment of expenses. The Opposition papers ridiculed the Cabinets, which courageously tried to reduce expenditure, with the nickname of "*compagnia della lesina*" ("skin-flint company"), but their work proved beneficent. In the meantime, despite the Protectionist tariffs which surrounded us in foreign countries, and despite the national tariff, which drew our capital into unnatural channels, agriculture and industry made great progress in Italy; the banking crisis was overcome, the Italian Rentes were again quoted at 100 and over, and as the paper circulation, not covered by metal reserve, was reduced, the *agio* insensibly dwindled. These facts reacted favourably on the State Budget, and the following were years of surpluses:

	Lire Italiane
1898-99 .....	+ 15,094,086
1899-0 .....	+ 5,210,486
1900-1 .....	+ 41,234,451
1901-2 .....	+ 32,582,183
1902-3 .....	+ 69,713,119
1903-4 .....	+ 33,814,847
1904-5 .....	+ 47,798,285
1905-6 .....	+ 63,521,386
1906-7 .....	+ 89,999,285
1907-8 .....	+ 39,857,850

The acme of prosperity was attained on June 29, 1906, when the Italian Parliament, amidst loud cheers, voted the conversion of the Rentes from 4 per cent. to  $3\frac{3}{4}$ , and after five years to  $3\frac{1}{2}$  per cent. The conversion of this enormous debt of 8,000,000,000 lire was accomplished without difficulty, and, indeed, with such success that it enhanced the credit of the Italian State.

But the great surpluses were a danger. Year after year the income of the State went on increasing, making it tempting to incur new expenses. The contemporaneous increase in private incomes and the progress in industry and commerce led to a crisis, which culminated last November, the full consequences of which have not yet been seen (see *Economist*, July 25 and August 22 and 29, 1908, on "Italian Bourses"). In State finance we have not had a crisis, but undoubtedly the situation calls for great prudence. The Budget for 1906-7 closed with a surplus of 89,999,285 lire. Some of this was not real, having been obtained by artificial devices, on which it would take too long to dwell. The fiscal year 1907-8 closed with a surplus of only 39,857,850 lire, from which sum must be deducted 3,310,094 lire, representing the accounts remaining over from past years, so that the real surplus must be put at 36,547,757 lire. The first estimate of the Budget for the current year 1908-9 closed with a surplus of 43,613,757 lire. Various subsequent Parliamentary votes introduced variations in income and expenditure, so that in the revised Budget the estimated surplus is reduced to 16,092,632 lire, from which before the end of the year various items will have to be deducted, in consequence of Bills involving expenditure not yet voted by Parliament. The Minister of Finance is compelled, therefore, to estimate the real surplus at only 3 million lire. Probably the surplus would have been greater, as the figures of the items of income are calculated too low, but the extraordinary expenses and the reduction of income consequent on the ruin of Messina and Reggio Calabria render the surplus very doubtful. Nor are the estimates for 1909-10 better, as it is calculated that the final surplus will not exceed the sum of 5 million lire.

The chief cause of the progressive dwindling of the surpluses is the continuous increase in public expenditure in the years after 1897-8. The actual expenditure, which had been reduced from 1,774,983,122 lire in 1890-1 to 1,669,168,155 lire in 1898-9, went on increasing afterwards, till in 1907-8 the figure of 2,251,747,240 lire was attained. The all-important cause of this increase in expenditure has been the raising of the salaries of public servants. One after another, all classes of public servants, from the highest State Councillors down to the humblest letter-carrier, have clamoured for a higher salary, to meet the enhanced cost of living. In the years 1905-9 this cause alone has produced an increase of 115 million lire in public expenditure. Another cause of increased expenditure has been the clamour for public works. In the same years there were voted: 1) 31,975,100 lire for land drainage and improvement in malarial regions, highways, &c.; 2) 25,000,000 lire in State aid to the building schemes for transforming the

capital (Rome); 3) 137,043,000 lire to harbour works; 4) 15,000,000 lire to land and hydraulic works in Sardinia; 5) 28,500,000 lire in aid to regions damaged by earthquake in Calabria, by the eruption of Vesuvius &c.; 6) 551,500,000 to new railways construction.

Who can wonder that Mr Carcano, Minister of Finance, in his last Budget speech, dwelt at length on the urgent necessity of putting a stop to the increase of unnecessary expenditure?

*(To be continued)*

## 6.

### THE ITALIAN BUDGET. II

*From an Italian Correspondent*

A brief examination of the Italian Budget will help to give a clear idea of our finance. It is necessary to say that the Italian Budget is divided into four sections (*categorie*). The first section (*Categoria I.: Entrate e spese effettive*) comprises the actual income and expenditure; on the side of income are included the yield of taxes and other revenue from State domain and public services, and in the expenditure all the sums disbursed for the current public services. A surplus or a deficit in this section is, therefore, a real surplus or a real deficit. All the income is gross income save for a very few exceptions, of which the only important one is that of the State railway administration, the income from which is put down as net in the general Budget. The second section (*Categoria II.: Costruzione di strade ferrate*) includes in the item of income the sums which the State has borrowed for the construction of new railways, and in the item of expenditure the sums spent for the same purpose. The surpluses and deficits of that section are not, therefore, real surpluses and deficits, for a surplus means that a large sum has been borrowed which has not been utilised for the construction of new railways, while a deficit means that some railways have been built (without incurring debt) with the surpluses of the first or the third section. It

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6. January 23, 1909, pp. 161-162. The article, unsigned, was published in the first section of the newspaper. Being the continuation of the previous article, its attribution to Luigi Einaudi is certain.



would have been clearer if this second section had been amalgamated with the third section (*Categoria III.: Movimento di capitali*), which in the item of income comprises the whole sum borrowed for capital expenses (such as harbours, canals, improvements of malarial land, and, in the last years, also railway construction not executed directly by the State, but by the special State railways administration, &c.), or for the repayment of old debts, and in the item of expenses the sum actually expended, as above said, on public works and on the repayment of old debts. A surplus or a deficit in this section has the same meaning as in the second section. The fourth section (*Categoria IV.: Partite di giro*) comprises those items which appear twice in the Budget, for book-keeping and other purposes, in the same sum, as income and again as expenditure. It has no real importance, and will be omitted here.

In the following table we have set out the public expenditure from the final accounts for the year ending June 30, 1908, and from the estimates for 1908-9 and 1909-10. We have added the sum total of income for each section, so as to bring out the special and the total deficits or surpluses. (See table at p. 23).

It will be remarked at once that the final accounts for 1907-8 and the estimates for 1908-9 and 1909-10 close with surpluses of 61, 33, and 22 millions respectively, whereas the surpluses are stated above in the article to be only 36, 3, and 5 millions for the same years. The difference is accounted for by the effect of a device, by which a given sum appears two or three times over augmenting the surpluses, and of new Bills involving expenditure, which it has been impossible to take into account in the estimates. The true surpluses are, therefore, the last-mentioned ones of 36 (actual) 3, and 5 millions (estimated).

Another observation may be made: the surpluses of the last and next years are obtained only by resorting largely to borrowing, as the income in sections II. and III. is income from loans. The same thing cannot be said with regard to the years immediately preceding July 1, 1905, as in the years from 1897-8 to 1904-5 the new railways and other public works were mainly built by means of the surpluses of the first section. July 1, 1905, brought a new (it is doubtful whether it is a better) spirit into Italian finance. The State took over the railway service, and inaugurated a period of huge debts for railways and other public works. The practice of resorting to debt for capital investments is frequently necessary, and is not objectionable in itself, provided that the public works and railways are reproductive. Is that the case with the 1,500,000,000 lire or thereabouts which have been and will be ex-



	Actual Expenditure for 1907-8	Revised Estimate for 1908-9	First Estimate for 1909-10
	Lire	Lire	Lire
Section I. — Actual current expenditure			
Treasury (public debt, pensions, &c.) ....	612,612,301	710,640,286	715,891,211
Revenue department .....	271,042,056	276,423,589	272,737,115
Justice .....	48,470,181	51,263,722	52,760,962
Foreign Affairs .....	21,453,275	19,130,445	18,981,114
Public Instruction .....	85,822,209	93,132,110	89,375,465
Interior .....	106,129,960	108,483,582	111,721,134
Public Works .....	107,102,323	107,672,453	105,403,000
Post and Telegraph .....	122,981,699	127,675,313	130,688,182
War .....	384,913,429	299,345,810	301,489,000
Marine .....	157,145,501	153,129,321	163,427,941
Agriculture, Industry, and Commerce ..	27,009,035	25,879,605	26,060,648
Total expenditure .....	1,884,681,974	1,972,776,239	1,978,535,773
Total income .....	1,946,424,711	2,005,807,827	2,020,458,119
Surplus .....	61,742,736	33,031,588	41,922,345
Section II. — Railway construction			
Expenditure .....	9,750,000	8,110,000	43,330,000
Income .....	—	—	36,300,000
Deficit .....	9,750,000	8,110,000	7,030,00
Section III. — Capital account			
Expenditure .....	295,438,414	214,311,582	200,800,514
Income .....	305,322,528	222,963,626	188,059,211
Surplus .....	9,884,114	8,652,044	12,741,302
General summary			
Income .....	2,251,747,240	2,228,771,454	2,244,817,330
Expenditure .....	2,189,870,389	2,195,197,821	2,222,666,288
Surplus .....	61,876,850	33,573,632	22,151,042

pended on so-called reproductive purposes in Italy in the five years from 1905-6 to 1909-10? That is the question. And it is as yet too early to give any certain reply. The piling up of huge debts has been hitherto an easy thing, as the Government has had at its disposal the funds of the Deposit and Loan Bank (*Cassa Depositi e Prestiti*), a Governmental banking institution in which is centred the administration of the postal savings banks (with its 1,468,939,437 lire on June 30, 1908, of small deposits) and of numerous other public or semi-public funds. But the Deposit and Loan Bank appears to have been too hard pressed by the Government's absorbing policy of debt; and as the local authorities

(towns and provinces) are also calling urgently on the same bank for aid, it has been necessary to decide on the emission of a new State loan by the State. A Bill (of December 11, 1908) has already been voted by the Chamber of Deputies, and will shortly become law, which provides for a new loan at  $3\frac{1}{2}$  per cent., redeemable in 50 years. The new loan will be offered for public subscription up to a maximum of 150 million lire per annum. As the  $3\frac{3}{4}$  Perpetual Rentes, which in 1912 will be reduced to  $3\frac{1}{2}$ , are 4 points above par, and as in Italy there is a relative dearth of gilded stocks (so that some capitalists are beginning to buy foreign stocks – Swiss, Prussians, and Spaniards), there is no doubt that the new  $3\frac{1}{2}$ , redeemable will be readily taken up. The question remains if the debt will in the end prove remunerative. A negative reply would be given if one looked only at the net revenue of the State railways. Prior to July 1, 1905, the net revenue oscillated between 70 and 96 million lire. After the railway service was taken over by the State and heavy capital expenses net by loans, the net revenue has been reduced to 79 million lire in 1905-6, 52 in 1906-7, 43 in 1907-8, and is estimated at 37.7 and 40 millions in 1908-9 and 1909-10. A definite conclusion from these figures would, however, be unwarrantable, as many conditions are being changed in the meantime. That the epoch of great surpluses has come to an end is, indeed, certain, and it is certain also that our Governors must exercise great caution if the delicate fabric of our national credit is not to be shaken.

## 7.

## THE ITALIAN BOURSES

The last year, writes our Italian correspondent, was a very bad one for all the Bourses of Italy, and the present has not opened better. I give in the following table the *résumé* of the quotations of 243 amongst the foremost shares quoted in the Italian Bourses. The table follows those which were published in No. 3,391 of the *Economist* (August 22, 1908):

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7. February 13, 1909, p. 322. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because of a payment letter sent by the secretarial staff of *The Economist*, dated March 8, 1909, for his February contribution.

IN LIRE, 000's OMITTED.

Name of Groups	Number of Joint-Stock Companies under Consideration	Nominal Price of the Shares at December 31, 1907	Actual Price of the Shares at the End of			Number Index, or Relation between the Actual and Nominal Price at the End of		
			December, 1907	December 1908	January 1909	Dec., 1907	Dec., 1908	Jan., 1909
Banks.....	14	645,500	823,920	801,040	789,000	127,44	123,89	122,04
Railways, tramways, navigation .....	23	739,650	832,720	829,000	813,000	112,58	112,08	109,91
Mines, foundries, iron and steel engineering works, &c. ....	39	291,956	437,224	362,000	352,000	149,75	123,99	120,55
Electric and other lighting (gas, &c.) .....	21	134,150	243,084	231,000	230,000	181,20	172,19	171,45
Sugar industry ....	21	116,450	181,200	171,000	165,000	156,03	146,84	142,55
Water supply .....	6	60,900	92,938	88,628	88,056	152,59	145,53	144,59
Chemical products	11	25,250	125,235	98,000	93,000	165,32	129,37	122,75
Weaving and spinning (cotton, wool, waste silk, &c.) .....	36	201,900	299,813	280,000	277,000	148,49	138,68	137,19
Grinding of cereals, manufacture of macaroni, &c. ....	9	37,200	41,824	35,142	33,692	112,43	94,47	90,57
Manufacture of motor cars .....	16	44,900	38,312	23,500	23,000	85,32	52,34	51,22
Land and building companies.....	10	152,250	153,792	164,005	163,750	101,01	107,72	107,55
Various industries	29	176,673	295,193	270,000	267,000	167,08	152,82	151,12
Total .....	213	2,679,279	3,570,765	3,353,275	3,295,498	133,27	125,15	122,99

As will easily be seen, there has been a continuous fall in 1908 and in the first month of 1909, so that there has been reached a lower water-mark than in October, 1907 (American crisis). The causes of the stagnation of the Italian Bourses are many. The terrible earthquake exercised a certain influence in the first days of 1909, but by the end of January its influence had already spent itself. The chief cause of the depression of to-day has been the exaggerations of the past. The severest fall from the high water-mark of March, 1906, to the lowest point of

January 31, 1909, has been experienced in the motor-car department; the fall has been 627 per cent. where the craze was the wildest; then come the grinding of cereals industry with a fall of 103 per cent. of the nominal value; the mines, foundries, iron and steel, engineering works with 96 per cent.; the sugar industry with 91 per cent.; the chemical products industry with 77 per cent. All these industries had been greatly over-capitalised, or are basing their fortunes on Protection and Governmental favours. The electric and other lighting shares, which for a time were over-priced, have lost 52 per cent. on the face value, in part also as a consequence of municipalisations. The loss upon bank shares has been less severe, 41 per cent. The water supply companies follow with 34 per cent., the land and building shares with 24 per cent., the railways, tramways, navigation shares with 20 per cent., the cotton, wool, and silk companies with 14 per cent. One may say that the fall and the depression are almost in exact proportion to the excitement of the past. But the stagnation is to-day almost complete, from the distrust of the capitalist, who buys nothing but Italian Rente  $3\frac{3}{4}$  per cent. and other gilt-edged stocks. These are the only securities for which there is a market in Italy at present. I may add that the Italian capitalists have begun to buy foreign Government securities, and have subscribed, from distrust of industrial and bank shares and dislike of the meagre interest on Italian Rente, a not indifferent sum to the Russian  $4\frac{1}{2}$  per cent. loan.

## 8.

## THE FOREIGN TRADE OF ITALY IN 1908

The statistics of Italy's foreign trade for the year 1908, which have been published recently, writes a Turin correspondent, disclose an increase in the total trade apart from the precious metals, a rise in the imports having more than counterbalanced a decrease in the exports:

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8. March 6, 1909, pp. 511-512. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because: a) of the wording "writes a Turin correspondent"; b) the treatment of the argument bears strong similarities with an article published in *Il Corriere della Sera* on February 23, 1909, entitled "Le illusioni dello sbilancio commerciale".



(000's Omitted    Precious Metals not Considered)

	1905	1906	1907	1908
	Lire	Lire	Lire	Lire
Imports .....	2,015,775	2,514,351	2,880,669	3,030,940
Exports .....	1,705,317	1,905,949	1,948,868	1,858,257
Total .....	3,721,092	4,420,301	4,829,537	4,889,198
Excess of imports over export ...	310,458	608,402	931,801	1,172,683

These figures have excited great alarm in certain quarters, mainly protectionist, which predicted ruin to our country. But the alarms are unjustified as, notwithstanding the great deficit in the commercial balance, there has been a continuous inflow of precious metals. In these, official statistics show a surplus of imports as follows:

	Lire
1905.....	161,318,000
1906.....	133,432,600
1907.....	162,332,600
1908.....	7,040,400

It is clear that Italy has continued to have a surplus of imports without losing a single lira of her monetary capital. The Bank of Italy has in recent years greatly added to her metallic reserves, and has gained a prominent place among the European banks of issue. The surplus of imports has been paid for by remittances from Italian emigrants in the United States, Argentina, and elsewhere, and by the money spent by foreign tourists. In 1908 the American crisis reduced both the emigrants' remittances and the number of foreign visitors. It may be added that the figures of the 1908 surplus of imports are misleading, as they are provisional figures, while the 1905, 1906, and 1907 figures are ultimate. The 1908 figures are, indeed, calculated on the 1907 values basis; whereas, in fact, 1908 was a year of falling prices. A rough approximation gives 2,730 millions of imports and 1,800 millions of exports, a total trade of 4,530 millions, or a fall of 300 millions from the high level of 1907; and the surplus of imports shrinks to 930 million lire. If we analyse the import figures, we find that the greatest increase of the quantity entered has been in animals and animal products, which increased from 174 to 273 million lire, in minerals, metals, and machinery, from 655 to 676 million lire, in spirits, oils, and various drinks, from 50 to 65 millions. The greatest decreases in imports had been in railway and other cars, from 65 to 50 millions, in silk (mainly finished) from 249 to 238, and in cotton from 340 to 327 millions. The greatest decrease in our exports has been in flour, macaroni,

&c., from 294 to 260 millions, in silk from 673 to 644 millions, in cotton (textiles) from 143 to 121 millions. But the purchasing power of the masses has been unimpaired, as may be seen from the growing imports of alcohol, and, above all, from the increasing meat consumption, for which the Italian agriculturist is unable to provide. Already some quantity of Australian and Argentine frozen meat has been imported at Genoa; and there is an increasing outlet for that industry in our country. I end with a table of our trade with the principal foreign countries in 1908 (in lire, 000's omitted):

	Import from	Exports to
Germany .....	549,012	275,714
Great Britain .....	534,825	134,244
United States .....	407,022	223,456
France .....	298,073	222,294
Austria-Hungary .....	306,911	149,803
Switzerland .....	89,528	339,120

These figures are useful to indicate the relative position of various countries in the foreign trade of Italy; but they do not agree with the official foreign statistics for many reasons which would be too long to detail here.

## 9.

### THE BANK OF ITALY REPORT FOR 1908

*From an Italian Correspondent*

This year at the meetings of the shareholders of joint-stock companies were heard from the presidents of the boards of directors speeches very different in character from those which were heard in the golden days of 1906 and 1907. Dividends reduced and sometimes passed by, losses and reductions of capital, companies dissolved – that is the tale which the Italian shareholder was learning, much to his disappointment, in the last week of March and the first of April. This is not, fortunately, the whole tale; the old-established companies, with high reserves, have stood well against the

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9. April 17, 1909, pp. 818-820. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable because of a letter sent from the editorial staff of *The Economist*, dated April 7, 1909, enclosing proofs.

storm of falling prices and dwindling profits. But to new companies the year past has been fateful.

The changed situation reflects itself in the reports of boards of directors of the leading banks in Italy. The Società Bancaria Italiana, which in November, 1907, was for a moment doomed to ruin, has been reorganised, and the reduced capital has gained a dividend of 5 per cent. The Banca di Liguria has reduced the dividend from 9 to 7 lire. Of the two foremost Italian private banks, the Banca Commerciale Italiana (105 millions lire capital and 35 millions reserves) has maintained the dividend at 45 lire (9 per cent.), while the Credito Italiano (75 millions lire capital and 9 millions reserve) has reduced it from 32.50 to 30 lire ( $6\frac{1}{2}$  to 6 per cent.). Time will show which action has been wiser. One wonders, however, that the Banca Commerciale Italiana, after having, in its official report, very wisely advised the industrial companies to reduce their dividends in the present year of depression and of forced economy, should not have followed its own timely and wise advice.

But the report which has aroused most attention in Italy, and which may truly be described as the most important financial document of the year, is the report of the director-general of the Banca d'Italia, Mr. Stringher, to his shareholders. It is, in spite of the industrial and banking stagnation of our country at the present moment, a highly gratifying document, as it definitely places the Bank of Italy among the leading banks of issue of the world, with its capital reconstituted with a sound circulation and a gold reserve which 15 years ago no one could have hoped for. Many of the readers of the *Economist* will remember the utter ruin of the Italian banks of issue prior to 1894. The building crisis was raging in Rome; the wine crisis had ruined the landed proprietors. The banks, to cover themselves, had to acquire house property in Rome and other great cities, and enormous agricultural domains. Last, but not least, it was discovered that the banks of issue were in the habit of lending sums not only to trade customers, but also to politicians of the worst kind. One of these banks, the Banca Romana, to conceal its misdoings, had gone so far as to emit a double series of notes; that is to say, to falsify the note circulation. It was in such circumstances that the Bank of Italy was born in 1894 to succeed the Banca Nazionale and the two Tuscan banks of emission, and to liquidate the rotten Banca Romana. How stupendous were the losses caused by the mismanagement of the past may be argued from the fact that the old assets of the Bank of Italy, which altogether amounted to 519,665,000 lire, some 200 million lire were considered as utterly lost, apart from the consequences of the liquidation of the Banca Romana. The years 1894-1908 were years of patient re-



construction, and to-day the work may be said to be accomplished. The shareholders had to consent to a reduction of the capital of the bank from 210 millions to 150 millions, and to an augmentation of it to 180 millions lire by means of a call of 100 lire per share. A yearly sum of 6 million lire, with interest, was taken from the annual profits to constitute a special reserve to compensate the losses prior to 1894, and another sum of 2 millions a year, with interest, was to compensate the losses of the liquidation of the Banca Romana. This last liquidation is to continue up to December 31, 1913, but it appears that the accumulated reserve (which at December 31, 1908, had risen to 40,333,170 lire) will be sufficient to compensate the probable losses. The main liquidation of the above said 519,665,000 lire of "immobilizzazioni" has ended December 31, 1908, with a surplus already realised of 14,254,000 lire, which the director-general hopes to raise in due time to 32 million lire. The Bank's success has been achieved: (1) by the sacrifices of the shareholders, which we have mentioned; (2) by the patient and careful realisation of the assets of the bank. The realisation of these assets was made possible by the economic progress in Italy, which made saleable lands and houses which formerly were unsaleable. To-day all the assets of the Bank are liquid; ad to the 180 millions of capital are to be added 48 millions of ordinary reserve and 12 millions of special reserve.

With the progress of the internal reconstruction of the Bank, a similar advance took place in the services which the Bank was able to make to the community. In the following figures are summarised the great change which has taken place since December 31, 1894:

(In Lire, 000's Omitted)

	December 31		
ASSETS	1894	1900	1908
Gold reserve .....	292,701	300,847	932,146
Silver reserve .....	67,859	46,191	110,279
Inland bills .....	184,279	258,763	388,620
Advances .....	27,744	35,098	77,483
Securities .....	91,900	175,358	164,822
Foreign bills .....	23,141	72,099	70,814
Foreign securities .....	10,562	20,294	26,842
LIABILITIES			
Note circulation .....	826,457	820,438	1,389,145
Current accounts and deposits at notice	210,394	194,534	195,752
Proportion of the reserve to the note circulation .....	43.39%	48.27%	77.46%

The change has been great indeed. The note circulation has risen from 826 to 1,389 million lire, and at the same time the proportion of the reserve



has gone up from 43.39 per cent. to 77.46 per cent. In 1894 the note circulation, though small, was not properly backed by gold or silver, but was issued largely against the baneful "immobilizzazioni", or houses, land, and doubtful credits. If the Bank had to change notes in gold, it would have had soon to admit its incapacity to do its duty. Therefore the notes circulated by force of law, and were not admitted to change in gold. The "aggio" was at its highest, and 100 lire gold exchanged for 111.08 lire paper notes (115.70 maximum, 106.37 minimum).

Year by year the situation has improved. The current accounts and deposits at notice have diminished, as the Bank of Italy pays a minimum interest on the deposits (0.50-0.75 per cent.), and depositors prefer therefore the savings and other banks, which pay from 2 to 4 per cent. on deposits. The note circulation has gone up not for the sake of loans to politicians or to landed or house proprietors, but for satisfying the real need of trade. To counterbalance the growing note and deposits liabilities the Bank has increased its gold reserve from 300 to 932 million lire (from 12 to 37 million pounds), apart from the increment of silver reserve, while the inland bills progressed from 184 to 388 million lire, the advances on securities, silk, &c., from 27 to 77 millions. Meantime, the "aggio" on paper notes has disappeared.

If we look at the banking operations of the last year (1908) compared with 1907, we find the total discounts decreased from 1,618,561 in 1907 in number to 1,466,224 in 1908, for a sum of 2,043,287,772 lire in 1908, against 2,261,968,257 lire in 1907. The crisis has made itself felt; but as the mean length of the discount increased, the mean sum used in discount operations progressed from 368 to 372 million lire. In 1907 the normal or official rate of discount had been advanced from 5 to 5½ per cent., and the Bank consented to apply a lower or special rate only to 26.16 per cent. of the bills discounted. In 1908 the normal rate was reduced in January to 5 per cent., and later special rates of 4½ and 4 per cent. were granted to high-class customers. The discount operations in 1908 may be classified as follow:

Bills		Number of Bills Discounted	Sum Total in Lire
To	100 Lire.....	202,382	14,304,320
From	101 to 500 Lire.....	674,703	199,045,597
"	501 to 1,000 Lire.....	345,144	240,750,825
"	1,001 to 5,000 Lire.....	187,648	472,917,257
"	5,001 to 10,000 Lire.....	34,343	278,415,557
"	10,001 to 20,000 Lire.....	10,711	165,528,767
From	20,001 Lire upwards.....	11,293	675,325,449

The great majority of the bills discounted are therefore small bills, which is an index of the useful services of the Bank to a multitude of customers.

The advances on first-rate securities, on silk and other goods, increased from 2,546 for a sum of 469,768,411 lire in 1907 to 2,941 for a sum of 501,979,937 lire in 1908. This was the effect of the law of December 31, 1907, which diminished the tax on advances from 1 cent. or a lira par day, and per 1,000 lire to  $\frac{1}{4}$  cent. for the advances on State Rentes and  $\frac{1}{2}$  cent. for all other advances. The gross profits of the year amounted in 1908 to 37,826,108 lire against 35,645,269 lire in 1907, an increase of 2,180,839 lire. The expenses were 25,265,063 lire, against 26,167,563 lire in 1907, or a diminution of 902,500 lire. The net profits were therefore 12,561,045 lire, to which were added the balance brought from 1907 of 268,127 lire. The sum total of 12,829,173 lire was divided as follow: — 1,215,834 to reserve fund, 11,400,000 to shareholders, and 213,338 lire brought forward. The dividend on the 300,000 shares was fixed at 38 lire per share (6.33 per cent.). In 1907 the dividend was 30 lire, in 1906 only 20 lire, and previously 18 lire. The shareholders may congratulate themselves on the increased dividend, and on the hope of further increment in future years as the work of reorganisation of the Bank of Italy is come finally to an end. The public Treasury will also benefit in future years from the increased profits of the Bank.

The one black spot in the whole story is the effect which the announcement of an increased dividend (from 30 to 38 lire per share) by the Bank of Italy has had on the Italian Bourses. As the Bank of Italy share is undoubtedly the share most widely known by the capitalist, the Stock Exchange *meneurs* had a powerful argument for a rise in quotations of the shares of other concerns. The movement is quite artificial and is doomed to failure; as no one among the capitalists will be persuaded to buy shares of other concerns, which may have distributed a dividend higher than the profits really obtained, merely because the Bank of Italy in the 15 years past has been extremely well managed, and has acquired a prominent position among the European banks of issue.

## 10.

## ITALIAN FINANCE AND THE NEW TAXES

The new fiscal year in Italy has now opened, and amid many unfavourable omens. The fiscal year 1908-9 closed, it is true, with a surplus of some few millions lire; for, together with increasing expenditure, the State's principal income also showed an increase as compared with the previous year:

	1907-8	1908-9	Inc. (+) or Dec. (-)
	Lire	Lire	Lire
Customs, Excise, &c. ....	506,577,273	560,359,060	+ 54,781,787
Tobacco, salt, and lotteries .....	422,687,078	440,315,286	+ 17,628,208
Income taxes.....	434,578,661	456,245,909	+ 21,667,248
Succession, duty, stamps, &c.	260,616,611	256,735,702	- 3,880,909

The great increase in Customs is due to the yield of the wheat duty, which was considerable, in consequence of the bad 1908 crop. But this year the wheat crop has been fair; so that the imports of foreign wheat will be materially reduced. The yield of Income-taxes (land tax, house tax, and industrial, commercial, and professional income-tax) is bound to diminish also in 1909-10. In the month of July just past the yield of the industrial and commercial tax diminished by 212,045 lire. The effects of the economic crisis of 1907 and 1908 will, indeed, appear in the new year in the yield of the industrial and commercial tax (*imposta di ricchezza mobile*), as the assessment of incomes in 1908 and 1909 was based on the balance-sheets of joint-stock companies for 1906 and 1907, which were years of high dividends and prosperity, while the assessment for the 1910 tax will have to be based on the balance-sheets for 1908, which disclosed reduced dividends and great losses. These facts have induced Signor Carcano, the Secretary of the Treasury, to address a letter to his colleagues in the Cabinet, urging economies in the Budget scheme for 1910-11, which the various depart-

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10. September 4, 1909, pp. 459-460. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable because the treatment of the argument bears strong similarities with three articles published in *Il Corriere della Sera* (August 7, August 14 and September 29, 1909), entitled respectively, "Come si fuma in Italia", "Nuove tasse 'simpatiche': la tassa di bollo per i titoli esteri", "Lotto di stato". Furthermore, in a letter from the editor of *The Economist*, Francis Hirst (July 20, 1909), there is a reference to a future article on taxes, which is most likely this one.



ments have to compile during the recess. But economy is easier to preach than to practise, and there has been much talk of new taxes. The present fiscal system, with its salt tax of 40 centesimi (4d) per kilo, with its wheat duty of 75 lire the ton of 1,000 kilos, with its sugar duty of 99 lire the quintal of 100 kilos, is to be left intact. Even the heavy taxation of sugar, which leaves a protection of 27.85 lire per quintal to the manufactures (27.85 lire is the difference between 99 lire duty on foreign sugar and 71.15 lire excise on internal sugar), is to continue undisturbed, as a reduction of the protection to the 6-lire level prescribed by the Brussels Convention (a reduction which would be of great benefit to the consumers and to the State Exchequer) would hurt the potent tariff nursed sugar trust.

A match monopoly, in addition to those on tobacco and salt, is seriously contemplated to reinforce the State income. As, however, a match monopoly is mainly a tax on the masses, the Government is to-day seeking some other tax which will fall primarily on the classes. To find it is by no means easy in a country in which the incomes are already taxed by the State, the provinces, and the communes, to the extent of 10 to 60-70 per cent. To begin with, Parliament has approved in the last days of the session, almost without discussion, of a tax which apparently will not hurt the Italian taxpayers, but only the foreigner.

In future no security is to be imported into Italy without being subject to a new stamp tax. The Rentes (Consols), bonds, and other securities issued by any foreign State are to be subject to a stamp duty of 1 per cent. on the face (nominal) value. Any fraction of 100 lire is calculated as a whole, so that a security of a face value of 250 lire is to be taxed as one of 300. From the tax are exempt only the Exchequer bills issued by a foreign State falling due within five years. The shares, bonds, and other securities issued by cities and provinces of any foreign State or by joint-stock companies or by any corporation are to be subject to a stamp duty of 2 per cent. on the face value. Such securities as are not regularly stamped cannot be sold or be the object of any operation on the Stock Exchanges or by banks. No security can be created by any public or private document which is not stamped. A fine of twenty times the tax is imposed on the contraveners of the law. The fine is to be paid by buyer, seller, brokers, bankers, &c. The banker is liable to the fine even if he limits himself to the payment of coupons on non-stamped foreign securities.

The new tax will undoubtedly prove an obstacle to the introduction of foreign securities into Italy. Of late years the Italian capitalist had commenced to interest himself in foreign Consols – Spanish, Russian, Argentine, &c., – and the fear of taxation will send the small investor back to



the familiar Italian Consols. The difficulties which the Government encounters in the sale of the new 3.50 per cent. railway bonds (it was announced at the time of the issue that the amount offered for sale, 85 millions lire, was oversubscribed; but it appears now that a substantial portion was left to the underwriters) has perhaps inspired legislative action against foreign securities. But the great and even the small capitalist will always find a way to elude the new stamp duty, so that the foreign securities will preserve a less easy but an increasing market in Italy.

## 11.

## ITALY'S SHIPPING POLICY

*From our Correspondent*

Turin, October 12

In a recent issue\* the *Economist* criticised the Mercantile Marine Convention Bill, which proposed to give 22 million lire of shipping subsidies, nearly all to one company, named the Italian Lloyd. This Bill was defeated in July last, and the Government has now taken the bold step of dividing the services into three groups, one at Genoa, another at Palermo, and a third at Venice; and will invite biddings at a public auction on October 23rd, on the basis of a subsidy of 9,193,100 lire for the first group, 5,646,500 lire for the second group, and of 4,939,250 lire for the third group. The services will be allocated to the lowest bidders, after the approval of the Parliament to a new Bill embodying the results of the biddings.

In November next the Chambers will have to give their vote to another Bill, which is to continue the evil system of shipping bounties to Italian shipyards and shipowners. It is also probable that on this occasion strenuous efforts will be made by the interested circles to secure regulations

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11. October 16, 1909, pp. 756-757. The article, unsigned, was published in the section: "Foreign and Colonial Correspondence". Its attribution to Luigi Einaudi is probable because: a) of the wording "From our correspondent" and "Turin, October 12"; b) of a letter from the editorial staff of *The Economist* (October 7, 1909) enclosing proofs; c) the treatment of the argument bears similarities with three of Einaudi's articles in *Il Corriere della Sera* (October 5, 8 and 29, 1909), entitled respectively, "I nuovi progetti di convenzione", "I premi alla marina mercantile", "I nuovi metodi di protezione alla marina mercantile. La nazionalizzazione del trasporto degli emigranti e del carbone".

\* *The Economist*, August 7, p. 284

which will shut off foreign competition in the transportation of Italian emigrants from and to Italian ports, and of coal, which is to-day carried almost wholly by English vessels to Italian ports, and which would be *legally* reserved, in part at least, to the Italian flag. The subject is, as one may see at once, of real importance to British shipowners, and well deserves some comment.

The shipping bounties had their origin in Italy in the law of December 5, 1885, but as the bounties were not extremely high, they failed to promote a large activity in the shipyards. The new ships launched under that law amounted to 8,797 tons a year from 1886 to 1889, grew to 22,412 tons a year from 1890 to 1893 by virtue of a rise in the freight rates, and fell to 7,097 tons from 1894 to 1896, when the freight rates again declined. As the bounties had failed to give a stimulus to shipyards, the new law of July 23, 1896, added a new bounty to navigation of 80 centimes per 1,000 miles, and per ton of gross gauge. The effects were truly marvellous. The new ships launched by Italian shipyards went on rising from 6,606 net tons in 1896 to 11,458 in 1897, 19,478 tons in 1898, 33,802 tons in 1899, and 51,476 in 1900. The expenditure by the Treasury rose rapidly and it was foreseen that in a few years it would touch the huge sum of 25 million lire a year. The bounties, which were ineffective when moderate, had become a growing menace to the Treasury when fixed at a rate that effectively encouraged shipbuilding. A new law of May 16, 1901 provided in great haste for a reduction of the bounties which had proved too potent. With a flagrant disregard for past promises (on the security of which the shipbuilder had invested considerable sums), the expenditure by the State Treasury was reduced to the maximum of 8 million lire a year; the navigation bounties granted by the 1896 law were suppressed for the new ships, and reserved to the ships registered before September 30, 1899, but were reduced from 80 cents to 45 cents for steamers, and 30 cents for sailing vessels. The old shipbuilding bounties were limited to a maximum of 40,000 tons a year.

From 1886 to 1908 the laws of 1885, 1896, and 1901 cost the Italian Exchequer a sum of 122,517,000 lire. That the results were practically *nil* may be seen from the fact that the mercantile fleet of Italy at December 31, 1908, numbered 4,701 sailing vessels of 453,324 net tons, and 626 steamers of 566,738 tons. The value of this whole fleet may be put at not over 300 million lire, so that the Exchequer will have paid from 1886 to 1888 over 122 million lire in shipping bounties, and over 420 million lire from 1862 to 1908 in subsidies to navigation companies, or 542 million lire in all; and the net result was that on December 31<sup>st</sup>

Italy had a mercantile fleet of a million net tons, and of a value of 300 million lire.

It is fair to add that after 1900 the progress in the mercantile marine of Italy was by no means inconsiderable, as may be seen in the following table:

	New Ships Launched by Italian Shipyards			Italian Mercantile Fleet Registered at the End of Each Year			
				Steamers		Sailing Vessels	
	No.	Net Tons.	Value in Lire	No.	Net Tons.	No.	Net Tons.
1900.....	188	51,476	26,765,650	446	376,844	5,511	568,164
1901.....	154	44,543	29,770,790	471	424,711	5,337	575,207
1902.....	152	37,827	15,568,190	485	448,404	5,205	570,403
1903.....	246	44,453	16,937,330	501	460,535	5,153	584,223
1904.....	185	21,706	10,240,560	513	462,259	5,083	570,355
1905.....	191	35,702	19,966,770	514	484,432	5,020	541,171
1906.....	244	23,771	12,038,212	548	497,537	4,981	503,260
1907.....	286	36,433	34,330,230	589	526,586	4,874	468,624
1908.....	—	—	—	626	566,738	4,701	453,324

One must observe, however, that the progress is not due to the bounty policy, but to two entirely different causes. One is the rise in the freight rates, which began after 1900, and has given great impulse to shipbuilding in all countries. The other is the extraordinary growth of Italian emigration to the United States, Argentina, and Brazil. The importance of this second and more potent cause may be gauged from the fact that the number of Italian emigrants to transoceanic countries had grown from 166,503 in 1900 to 511,935 in 1906, and the number of Italian returning to their native country from 80,570 to 156,273 in the same time. This great traffic, which yields 100,120 million lire a year, has provided plenty of employment for Italian and foreign vessels, and has given to shipowners a great stimulus to order new and more rapid steamers.

Hence, the Bill on shipping bounties which has been laid before Parliament is altogether unjustified. The Bill seeks to perpetuate the old bounties to shipbuilding and to revive in a new name the navigation bounties abolished by the law of 1901. The bounties on shipbuilding are to be as follows: 1) A customs duty restitution of 38 lire per gross ton to the hulls of steamers and of 20 lire to the hulls of sailing ships. The restitution is reduced by 10 per cent. if less than two-thirds of Italian made materials have been employed in the construction of the hull; 2) a construction bounty of 54 lire per gross ton to the metallic hulls of ships (not inferior to 400 gross



ton of gauge if steamers and to 100 tons if sailers) if launched in the five years after the passing of the law, of 49 lire if launched in the second five years' period, and of 44 lire if launched in the third five years' period; to the timber hulls is to be given a bounty of 10 lire per gross ton; 3) a bounty of 15 lire per horse power to the motor machines and auxiliary apparatus; 4) a bounty of 12 lire per 100 kilograms to the boilers of motor machines; 5) a bounty of 13.50 per 100 kilograms to the other board engines. These bounties and duty restitutions are limited to a maximum of 40,000 tons of gross gauge per year.

The navigation bounties are to be as follows: 1) A yearly armament bounty of 4 lire per gross ton to steamers and 2 lire to sailing ships. To gain the bounty the ship will have to remain at sea for 300 days a year, and to navigate not less than 80 miles a day in the case of steamers and 30 miles in that of sailing vessels; 2) a yearly speed bounty for ships having a speed from 14 to 17 miles. The bounty gives 70 centimes per gross ton and per half knot above the 14 miles, and rises to 2 lire per half knot as the speed progresses up to 17 miles. The armament bounty and the speed bounty are reduced by 50 per cent. when a ship is ten years old and are to cease after the fifteenth year.

The navigation bounties are apparently given to foster the mercantile marine, but in reality will be entirely transferred from shipowners to the shipyards in the shape of an increased price for ships launched in Italy. Owing to the protectionist system the bounties will have to be divided between the shipyards and the iron and steel manufacturers, machinery makers, and naval engineers, who furnish the highly protected materials for shipbuilding. All these interests have constituted a potent, tariff-nursed trust, generally known as the *gruppo siderurgico*, to which the principal shipyards have in the end become affiliated. The trust will practically absorb the whole of the 8 million lire yearly paid in bounties by the Treasury, and nothing will be left to the mercantile marine. This piece of corrupt legislation the Italian Parliament is invited to approve, and probably will approve, as a means of fostering the national maritime industry!

The powerful interests which will have the benefit of the 22 million lire of subsidies to postal and commercial lines, and of the above 8 million lire of bounties, have conceived another and more ambitious plan of obtaining a monopoly of the rich emigrant traffic and of coal transportation. The existing commercial treaties are an obstacle to immediate legislation, but a campaign has been started in the Press to force the government to accept the exclusive principle in future commercial treaties. In the meantime a strenuous effort is being made to obtain regulations which, by skilful de-



vices, shall prevent the foreign flag from carrying Italian emigrants. It is always possible to enact regulations which, while respecting in principle the equality of flags, are directed only against foreign flags, and a long list of these regulations has been recommended in the report of the Royal Commission on Maritime Services. As the emigrant traffic yields yearly some 100-120 million lire, and as the foreign flag participated in this traffic in 1907 to the extent of 47.9 per cent. (French flag 9.4 per cent., British 17.8, German 18.4, Austro-Hungarian 0.6, Spanish 1.7 per cent.), it is evident that the national mercantile marine would gain some 50-60 million lire annually. Similarly a monopoly in the transportation of coal, of which in 1908 Italy imported 8,452,320 tons (8,128,428 from Great Britain), would be a great boon to national shipowners. As the treaties of commerce stand in the way, it is proposed that the state Railway Administration, the Marine Department, and the other State Departments should in future carry all the coal they need by means of the Italian flag. Such a policy would undoubtedly inflict a great loss on poor emigrants and on the Departments, which will have to pay higher freights to the privileged Italian shipowners. But the emigrants are poor people whom poverty banishes from the mother country, and for whom no one cares, not even the Socialist M.P., as their votes are lost in the political struggles; while the enhanced cost of State railway service, &c., will hurt only the humble taxpayer, whose voice is practically unheard by all political parties. The democratic and Socialist Press is always clamouring for a great tax reform, which will never come, and meanwhile allows the present Protectionist system to continue undisturbed, and even to grow worse.

## 12.

## ITALY'S FOREIGN TRADE AND GOLD EXPORTS

Italy's foreign trade statistics for the first nine months of the year, now published, bear witness to a revival after the crisis of 1908. From

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12. November 27, 1909, p. 1093. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because: a) of a letter from the editorial staff of *The Economist* (November 19, 1909) enclosing proofs; b) the treatment of the argument bears similarities with two of Einaudi's articles in *Il Corriere della Sera* (July 19 and December 13, 1909), entitled respectively, "Il movimento commerciale del 1908. Confronti internazionali" and "La ripresa del commercio internazionale".

1900 onwards the figures of imports and exports went on increasing, sometimes by leaps and bounds. The 1908 marks a break in the progressive movement, as the following table, giving the foreign trade of the country for the first nine months of the year (precious metals excluded), shows:

First Nine Months of	Imports Lire	Exports Lire
1900.....	1,249,619,722	967,014,400
1907.....	2,163,581,509	1,396,376,455
1908.....	2,096,999,237	1,256,662,004
1909.....	2,227,126,825	1,319,284,125

The crisis of 1907 made itself severely felt in Italy, and the effect is seen in these statistics. But in the current year the movement is again reversed. The most remarkable variations in the imports were the following (in the first nine months of 1909, against the corresponding period in 1908):

INCREASES	£	DECREASES	£
Cereals, flour, &c. ....	121,783,012	Minerals, metals, &c. ....	77,051,120
Animals and animal products..	29,879,640	Cars.....	17,215,247
Spirits, oils, &c.....	25,608,383	Chemical, drugs, dyes, and co- lours .....	11,196,904
Earthenware and glass .....	21,420,341	Cotton.....	10,815,317
Wood and timber.....	18,241,484		

The increases are in part due to the deficiency of home crops and to increasing consumption. The decreases may be attributed to the smaller number of new factories established and the enlargement of the old. The State railways have also reduced their purchases of locomotives and cars. In the exports these were the most notable changes:

INCREASES	£	DECREASES	£
Silk .....	49,209,063	Spirits and oils .....	19,265,375
Cotton (manufactured) .....	23,520,604	Animals and animal products.....	16,245,404
Hemp, linen, jute, &c. ....	14,890,380	Chemicals, drugs, dyes, and colours	6,201,077

The textile industry, although put to a severe test by the crisis, gallantly held its own. The silk industry, which is the mainstay of Italy's foreign trade, sold increasing quantities of the products to the foreigner. The Protectionists will no doubt raise the cry of Italy's poverty, as this year there has been an excess of exports over imports of gold and other precious metals, a consequence of the huge excess of imports over exports in other goods. The following table makes this clear:

First Nine Months of	Excess of Imports over Exports of Goods other than Precious Metals	Excess of Imports over Exports of Precious Metals
	Lire	Lire
1902.....	239,238,532	2,209,600
1903.....	286,772,245	70,471,500
1904.....	255,343,282	27,731,300
1905.....	276,362,163	83,983,600
1906.....	450,293,889	47,519,600
1907.....	767,205,054	112,116,200
1908.....	840,337,233	4,518,700
1909.....	907,842,700	- 39,719,300

From year to year, in spite of an increasing excess of imports over exports, Italy has imported a surplus of gold and other precious metals. In the year 1909, however, the excess of imports over exports of goods has grown to over 100 million lire per month, and, for the first time since 1902, it has been necessary to export some 40 millions of specie in partial payment of the goods imported. The transaction is perfectly sound, but the Protectionists will certainly declare that Italy is being ruined by the export of her gold reserve. Our correspondent notes that the metal reserves of the Bank of Italy are to-day as high or higher than in any moment of her career, and further adds that, in spite of the alleged gold pauperisation, the official rate of discount of the same bank has been maintained, in the recent period of universal monetary tension, at 5 per cent., and the actual rate of discount for first-rate firms has been raised only from  $3\frac{3}{4}$  to 5 per cent. There is now no probability of further advances.

### 13.

#### THE ITALIAN MINISTRY AT WORK

Signor Sonnino has announced his programme and obtained a vote of confidence from the Chamber, and his Ministry may now settle down

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13. February 19, 1910, p. 380. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is uncertain. We know, from a letter from the editorial staff of *The Economist* (April 5, 1910), that Einaudi contributed to the newspaper during the period January-March, 1910. Furthermore, the treatment of the argument bears some similarities with two of Einaudi's articles in *Il Corriere della Sera* (January 7 and February 14) about Sonnino's financial programme, entitled respectively, "Bilanci e debiti comunali" and "Le 'entrate' escogitate da Sonnino e la riforma dei tributi locali".



to deal with urgent problems of social and financial reform. Two subjects are specially conspicuous, public instruction and the reform of local taxation. More primary schools are to be established, and those now in existence are to receive more thorough inspection and increased financial aid. There is to be a new educational authority in each province, which will itself manage the schools in the smallest communes and supervise those at present directed by the municipalities; the teachers will be better paid, and the money needed for school buildings may be borrowed from the Government, the loans being repayable in 50 years, and the total being fixed at 240,000,000 francs for the twelve years from 1910 to 1922. Local taxation is to be extensively altered; the proceeds of the octroi duties are to go entirely to the local authorities, and Signor Sonnino in his speech intimated the desirability of getting rid both of these and other burdensome local taxes; on the other hand, the family or heart tax is to be given up by the local authorities to the State, but the former gain considerably by the change. The educational reforms will require increased revenue, which will be provided by a revision of the tax on cigarettes and a slight increase of the Excise duty on sugar. Unfortunately there is no indication that the national taxes on food, especially on grain and flour, are likely to be reduced, though a reduction has been talked of for many years. Military service is to be reduced to two years; the reforms recommended by the recent Military Commission are to be carried out, and so also is the shipbuilding programme. There are to be separate Ministries of Agriculture and of Communications, a Housing Bill, a Land and Labour Bank to assist co-operative societies and small holders, provision for reafforestation, and further aid to Reggio and Messina; and there are various minor items, one of them a measure permitting affiliation (*recherche de la paternité*) hitherto forbidden in the Italian kingdom, as in France. The unfortunate Shipping Conventions have been completely recast; the subsidised services will be in the hands of a single combination of ship-owners, though not the same as that contemplated by the late Ministry, and the term and the annual subsidy are considerably reduced. Unhappily, the new arrangement is accompanied by a system of bounties in aid of shipbuilding and also of freight charges, the latter designed to encourage particular imports and exports, which seems pregnant with possibilities of waste and corruption. But the social side of the programme is the most important. The mere summary of the whole occupies more than eight columns of the leading Ministerial journal, the details of the educational part five more. Signor Sonnino, it is said, hopes to pass



it all in five months; a leading Opposition paper suggests five years, or five times five, as a more suitable period. But one cannot help feeling that the Ministry is only existing on sufferance. Its supporters say that it has "made its majority", but the vote of confidence was carried by 193 to 84, with ten formal abstentions and about 120 absentees. The number of absentees from the Italian Chamber always is unduly large, but the supporters of the late Ministry of Signor Giolitti voted for the resolution avowedly on the ground that they desired to give its successor the chance of getting to work.

## 14.

## ITALY'S SILK AND COTTON TRADE

*From a Correspondent*

The Ministry of Finances, through the Board superintended by that competent statistician, Signor Lucioli, has recently issued the provisional return of Italy's foreign trade in 1909; values are calculated on the basis of 1908. The general results are as follows:

SPECIAL FOREIGN TRADE  
(Exclusive of Precious Metals)

Lire

Imports.....	3,079,113,112
Exports.....	1,833,723,053

As compared with those of 1908 these figures show an increase in imports of 165 million lire, and in exports of 104 millions. If we take 1907 as term of comparison, there has been an increase in imports of 198 millions, but exports have sunk by 115 millions. Of the excess of imports in 1909, 149 millions are due to wheat, flour, and other vegetable foodstuffs, which is a very strong argument against agricultural Protection (wheat-growing since 1894 is protected by a duty of lire 7.50 per 100 kilogs). Nor is industrial Protection, to which Italian agriculture has been long sacrificed, more

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14. February 26, 1910, p. 438. The article, unsigned, is published in the first section of the newspaper. Its attribution to Luigi Einaudi is uncertain. We know, from a letter from the editorial staff of *The Economist* (April 5, 1910), that Einaudi contributed to the newspaper during the period January-March, 1910.

supported by the moderate increase in exports, inasmuch the two Italian staple industries – silk and cotton – are not yet out of the trials of a long and severe crisis.

As for silk, which in its principal branches of reeling and twisting, is a quite non-protected industry, exporting the large mass of its manufactures, it is hoped that a better period may ensue beginning with the new crop of cocoons, which will take place in next June. The last crop proved abnormally bad, because later frosts in May, 1909, had seriously endangered the vegetation of the mulberry trees in North Italy, and especially in Piedmont, where farmers were obliged to reduce by almost a half their customary rearing of silkworms. In consequence of the resulting scarcity in the home crop of cocoons the Italian silk reelers were induced, for fear of being later unable to work their filatures, to indulge not a little in their natural speculative buoyancy and to deal with too dear raw materials. Events proved that fear was utterly ungrounded, as the want in the home crop was soon set off by larger imports of foreign cocoons, particularly from the Levant. On the other side, the exceptionally abundant silk produce of Japan in this year and the delay of the American consumers in resuming their purchases of raw silk at Milan, have maintained all this season a very dull tone in the market, in spite of the fact that work in the silk weaving industry at Lyons and other European centres has been unusually active. Raw silk and manufactures thereof exported from Italy in 1909 amounted to lire 566,612,000, or fully 30 per cent. of our total exports, showing an increase of lire 38,346,000 over 1908. Silk imported in 1909, the bulk of which is in cocoons and in raw silk to be twisted and thrown in Italian mills, represents a total value of lire 222,029,000, or lire 27,124,000 more than in 1908.

The case of cotton industry is a far worse one. This industry, as is well known, has been much developed since 1887 by the artificial inducements of Protection. The early years of high tariffs were a source of splendid profits to the existing concerns; but afterwards the general enlarging of the plants and the starting off of new and big enterprises have carried the normal output of the national cotton factories far above the actual possibilities of home consumption. This consideration must not be overlooked in meeting the usual Protectionist boast grounded on the increased exports of cotton yarn and cloth. The fact is undeniable, but it took place at the exclusive expense of the poor Italian consumers, who are heavily taxed in order that the happier Levantine or South American consumers may purchase cheaply the surplus produce of the Italian protected cotton factories. The figures for 1908 and 1909 are as follows:

## RAW COTTON IMPORTED into ITALY

Lire

1908.....	275,719,004
1909.....	253,819,195

## COTTON MANUFACTURES EXPORTED from ITALY

Lire

1908.....	106,900,130
1909.....	140,378,520

I propose to examine in a subsequent article some other features of the Italian foreign trade.

## 15.

## ITALY'S FOREIGN TRADE

*From a Correspondent*

A conspicuous feature in the external trade of Italy during the last 20 years has been a constant and increasing excess of the imports over exports, as the following figures show:

Average	Excess of Imports (Exclusive of Precious Metals)
	Million Lire
1890-99 .....	184.6
1900.....	362.0
1901.....	344.0
1902.....	279.8
1903.....	320.4
1904.....	304.9
1905.....	310.5
1906.....	608.4
1907.....	931.8
1908.....	1,184.0
1909.....	1,245.4

Italy, as the readers of the *Economist* are well aware, possesses a legal system of paper money *à cours forcé*. The Italian issue banks (Banca d'Ita-

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15. May 14, 1910, pp. 1078-1079. The article, unsigned, was published in the section: "Foreign and Colonial Correspondence". Its attribution to Luigi Einaudi is uncertain: it may be the article referred to in a letter from the editorial staff of *The Economist* (April 26, 1910), enclosing proofs.



lia, Banco di Napoli, and Banco di Sicilia) have their chests filled up with gold and silver coin, but they are not bound to barter it against their notes; and, in fact, gold and silver take no visible part in the ordinary business transactions of the Italian traders. Notwithstanding this rather abnormal and unsound situation of the Italian system of currency, and notwithstanding the increased "balance of trade" since 1902, the rates of exchange have scarcely reached the gold point, and have been for nearly the whole time not against but for Italy:

## RATE OF EXCHANGE ON PARIS. — YEARLY AVERAGE FOR 100 Francs

	Lire
1901.....	101.40
1902.....	98.99
1903.....	99.05
1904.....	99.88
1905.....	99.75
1906.....	99.75
1907.....	99.65
1908.....	100.01
1910 (April 25).....	100.62

During the decade 1900-9 the imports of gold (ingot and coin) and silver (coin of the "Unione Latina" only) have exceeded the exports by 623.8 million lire, according to the statistics below:

## SPECIAL TRADE

	Imports	Excess of Exports
	Million Lire	
1900.....	—	9.3
1901.....	—	4.6
1902.....	24.8	—
1903.....	150.2	—
1904.....	34.8	—
1905.....	161.3	—
1906.....	133.4	—
1907.....	162.3	—
1908.....	7.0	—
1909.....	—	36.1
Total	673.8	50.0

Italian statisticians are not a little puzzled to give an explanation of these facts. Commercial theory cannot be called in question, and the "balance of trade", apart from the inevitable inaccuracies of statistics, must have been made good somehow or other. But it is not an easy

task to discover and discriminate between the different sources of revenue, which have helped the Italian consumers to pay for their surplus of imported merchandise. There is, however, a general agreement that much importance must be attached to the remittances of Italian emigrants, particularly of those who have settled in South and North America.

Italy is a country of high birthrate, and the natural tendency of her people to emigration has been increased by her Protectionist policy, which has proved strongly against the interests of the great mass of agriculturists, and only profitable to a little combined band of landlords and privileged manufacturers. These baneful effects of Protection have been the more sensible in the southern provinces, because of the crisis in the exporting trades and the heavy taxation of agricultural implements and staple manufactures, produced pretty exclusively by mills situated in Northern Italy. Besides, as the late Marquis di Rudinì clearly pointed out, the corn duty has reacted against any progress of agriculture from the dismemberment of the largest estates, and has enabled the proprietors of these, thanks to the raised market value of cereal crops, to continue their unscientific and even uncivilised methods of farming.

That agricultural Protection has been a complete failure is quite evident from the increased imports of vegetable and animal foodstuffs:

	IMPORTS into ITALY	
	Cereals, Meals, and Other Vegetable Foodstuffs	Living Animals and Products Thereof *
	Million Lire	
1900.....	210.3	119.6
1901.....	289.3	123.4
1902.....	297.2	131.3
1903.....	321.3	136.8
1904.....	230.1	162.4
1905.....	291.2	157.1
1906.....	340.1	149.3
1907.....	259.7	174.8
1908.....	275.4	277.2
1909.....	424.5	292.4
Excess in 1909 over 1900	214.2	172.8

\* Exclusive of wool, leather, and silk.

So far from fulfilling its promises of more employment for the Italian agriculturists, Protection has swollen the flow of emigration:

## TOTAL NUMBER of EMIGRANTS from ITALY per ANNUM

Average	1881-85.....	154.141
"	1886-90.....	221.977
"	1891-95.....	256.510
"	1896-1900.....	310.430
"	1901-05.....	554.050
Year	1906.....	787.977
"	1907.....	704.675

A special Commission has been appointed by the Government to inquire into the causes of the apparent contradictions presented by the statistics of external trade. At the first meeting of this Commission, the present Premier, Signor Luzzatti, expressed his opinion that the total amount of the yearly remittances from the Italian emigrants comes near a thousand millions of lire. In the course of his speech, he pointed out that it is calculated in a recent report presented to the U.S.A. Congress by the Commission on Immigration that 85 million dollars are yearly sent to their homes by Italians immigrated into the States.

The fact is that, besides the millions of Italians who have settled permanently in the two Americas, a large mass of labourers regularly every year abandon their native land in order to earn some money by harvesting in Argentina. There are in some provinces of Southern Italy many villages which at certain periods of the year are unpeopled of their whole effective male population, and are reduced to women, children, and feeble old men. Permanent and temporary emigration, then, has been, for the poorer classes of the population, a safety valve, as it were, for escape from the total ruin of Protection.

The selfish and covetous policy of the agrarian magnates has carried with it its own punishment, and in the poorest provinces of the South, as in the Basilicata, rural wages have risen to limits which render quite impossible farming on the old non-competitive methods of culture. But the large landed proprietors, blinded by the spirit of monopoly, instead of yielding to the evidence of facts, turn piteously to Parliament, imploring that a further rise of wages may be prevented by means of some ill-contrived machinery for the legal hindrance of emigration.



## 16.

## ITALY'S CROPS AND THE PRESENT OUTLOOK

*From an Italian Correspondent*

The new office of agricultural statistics ably organised by Professor Ghino Valenti at the Ministry of Agriculture has estimated this year's wheat harvest at only 41,732,000 quintals (of 100 kilogrammes), against a crop of 51,699,000 quintals in 1909. Further, it is estimated that, apart from the probable reduction in consumption on account of the increased cost of bread, some 20 million quintals will have to be supplied by imports, as compared with 9,640,000 quintals in the year 1909-10. The price of wheat in Italy has not yet shown the full effect of these estimates, owing to the dullness which has prevailed for several weeks on the International market, allowing Italian millers to increase their supplies of foreign wheat to an unusual extent. During the past quarter (ending September 30th) 2,849,470 quintals of foreign wheat have been imported into Italy as compared with 1,231,880 quintals in the corresponding quarter of 1909. The time is approaching, however, when the medium and small Italian wheat-growers in want of money will be forced so sell the bulk of their stocks. A rise of prices is customary in years of bad crops, except in the case of an abnormally falling tendency of the world market.

Thus the conditions of life are at present far from satisfactory; and the outlook especially for the winter is disquieting. The staple crops have been considerably under the average; the produce of the vintages is estimated at only 53,990,000 quintals of grapes against 98,299,000 quintals in 1909.\* The crops of cocoons and of fruits have suffered seriously from a cold and rainy spring, and the *musca olearia* has continued to attack the olive trees. Moreover, many provinces in the South have been visited by the *cholera morbus*, and this has caused a severe stagnation of trade. Northern

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16. October 29, 1910, p. 869. The article, unsigned, was published in the section: "Foreign and Colonial Correspondence". Its attribution to Luigi Einaudi is uncertain. The treatment of the argument bears similarities with Einaudi's article in *Il Corriere della Sera* (July 23, 1910), entitled "L'Italia coltiva troppo grano? Una rivelazione della nuova statistica agraria".

\* The *Giornale Vinicolo Italiano* has published an estimate of the Italian vintage for 1910, showing it to have been the worst for the last decade. The total yield of the vineyards, it is said, will not be more than 26,870,000 hectolitres (or 591,398,624 gallons), that is to say, less than half the amount of wine produced in 1907, about half the crop of 1908, and not quite two-thirds of that of last year. The falling off is ascribed to the unfavourable atmospheric conditions, to the prevalence of diseases of the vine, and to carelessness on the part of the vine-growers.

Italy is suffering from a cotton crisis. The protected manufacturers have made the mistake of largely increasing the producing power of their plant without considering their poor position as exporters. The dearness of meat is less felt in Italy than in Germany and Austria-Hungary; but this is because for the most part of the year meat is a luxury to the poorer classes and working men of Italy.

At present wheat fetches between 26 and 28 lire per quintal, the duty on imports being 7.50 lire. The committee of the Confederazione Generale del Lavoro have just decided to revive among the organised bodies of Italian labour the agitation for the repeal of the wheat duty, with the immediate object of obtaining the temporary suspension of the tax. It will be remembered that the present Premier, Signor Luzzatti, in a letter published in the *Economist* of September 19, 1908, repudiated the charge of being "a worshipper of the duty on corn", and declared himself to be "in fact, one the few Italian Statesmen who are fighting for its gradual diminution". Many years before, when in 1894, the Chamber of Deputies was discussing the increase of the wheat-duty from 5 to 7 lire per quintal, Signor Luzzatti frankly expressed his own opinion in these terms which he cannot have forgotten: "Do you believe that, amidst the sharp watchfulness of the economists, amidst so great an overflow of democracy, if bread were rising, if the price of corn were going upwards, there could be a Minister so powerful as to keep up the price of corn? He would be carried off like a chaff in the whirlwind". Signor Luzzatti is in actual and full control of the Government, and it remains to be seen whether he will show his statesmanship by putting into practice the views he formerly maintains in vivid and unequivocal utterances.

## 17.

### COTTON AND TARIFFS IN ITALY

*From an Italian Correspondent*

The crisis in the Italian cotton industry is a striking instance of the ultimate mischief of Protection to the economical development of Italy and

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17. February 4, 1911, pp. 211-212. The article, unsigned, was published in the section of the newspaper. Its attribution to Luigi Einaudi is probable. The treatment of the argument bears strong similarities with Einaudi's article in *Il Corriere della Sera* (January 21, 1911), entitled "Per la preparazione ai trattati di commercio. Le vere tendenze degli stati stranieri".

her trade. The cotton spinning, weaving, and printing industries were highly favoured by the "Tariff Reform" of 1887, and now enjoy high Protection. According to the calculations of the British Board of Trade (Fiscal Memorandum Cd. 2337), the average incidence *ad valorem* of the import duties levied in Italy on British cotton manufactures in 1902 was as follows:

	Per Cent.
Piece goods	
Unbleached .....	34
Bleached .....	33
Printed .....	52
Dyed, &c. ....	29
Cotton thread for sewing .....	18
Cotton yarn	
Grey .....	14
Bleached or dyed .....	19

This is the measure of the protection as it affects the foreign exporter. From the point of view of the Italian consumer, Signor Giretti in his paper read before the International Free-trade Congress of 1908 in London estimated the yearly tax imposed upon the Italian people, and especially upon the poorest, by the protection of the cotton industry at not less than 100 million lire. The purpose of the "Tariff Reform" was, of course, to shut foreign manufacturers out of the Italian market, for the benefit of the Italian cotton manufacturer. In this object it has partly succeeded. The effect of the policy of high Protection upon imports is shown by the following figures:

## IMPORTS OF COTTON MANUFACTURES INTO ITALY

Yearly Average	Metrical Quintals	
	Yarn	Piece Goods
1875-79 .....	107,750	111,779
1880-84 .....	89,618	120,751
1885-89 .....	51,613	114,690
1890-94 .....	18,476	38,444
1895-99 .....	9,667	23,882
1900-04 .....	8,612	17,975
1905-09 .....	11,659	21,385

The figures for 1909 are:

	M. Quintals
Yarn for weaving .....	5,242
Thread for sewing .....	4,056
Piece goods .....	22,704

The artificial aid thus given by the State was for a time accompanied by a development of the manufacture of cotton goods in Italy. Capital was at-



tracted into the industry by the prospect of inflated profits. Old plants were extended and improved. A great many new concerns were started, some well organised, some not. The total number of spindles rose from 900,000 in 1880 to about 4,500,000; that of looms from 30,000 to 120,000. These facts have been adduced by the Italian Protectionists as a triumphant proof of the success of their policy. It is doubtful how far the ultimate cause of the increase in production of manufactures was due to the tariff, and how far it was due to the abnormal growth in the accumulated capital of the country during recent years, which leads it to seek new outlets. But one thing is quite certain, the home consumption has not increased in proportion to increased production of yarn and piece goods, and the Italian cotton manufacturers are faced with the necessity of finding an outlet for their regular excess of production.

During the years of good trade, in which the world's demand was increasing, they succeeded with relative ease in exporting a considerable quantity of yarn and piece goods.

## EXPORTS of COTTON MANUFACTURES from ITALY

Yearly Average	Metrical Quintals	
	Yarn	Piece Goods
1875-79.....	1,474	3,145
1880-84.....	1,106	4,170
1885-89.....	2,708	5,210
1890-94.....	6,465	21,748
1895-99.....	44,779	79,866
1900-04.....	85,797	161,376
1905-09.....	90,917	250,218

These exports were mostly to the Levant and South America. The record looks good enough, but as a matter of fact, the export trade has been carried on at prices which do not cover the high cost of the protected production. The alternative of going on short time would result, however, in even greater loss than dumping the exports. Italian manufacturers, moreover, are determined, whatever else may happen, that the price in the home market shall never fall below the highest point of the monopoly price. Experience shows that this means that the Italian consumer has always to pay the Manchester prices plus transport, plus the full amount of the Italian import duties.

Since the crisis which has prevailed during the last few years in the cotton trade through the increased cost of the raw material, Italian exports of manufactures have become more and more unremunerative. It must be remembered that the swollen prices of raw cotton are the more resented by



the Italian manufacturers, because they have been allured by Protection to specialise in the coarsest sorts of manufactures. An instructive proof of this fact is that the Italian spinning industry works at a yearly average of 44 kilos of raw cotton per spindle; roughly, a figure a little less than three times the average in the British industry with its growing specialisation in fine counts. Even extensive dumping abroad, in order to maintain prices in the home market, has not availed to keep the mills on full time. Authoritative calculations show that 1,200,000 spindles have been out of work for the whole of this year. Notwithstanding this enormous reduction of output, the situation of the Italian cotton industry remains very discouraging. No improvement seems possible under present conditions, while the price of raw cotton continues at its present level, and under the existing fiscal *régime*. The opinion is gaining ground, however, and not only among consumers, that it is this *régime* which is the cause of the mischief, and that the best remedy for the crisis is in another and a real Tariff Reform. Protection has caused over-production, increased prices for Italians, reduced purchasing power, and a ruinous export trade at unprofitable rates. Free-trade would increase the purchasing power in the Italian consumers, and diminish the cost of production to Italian producers. Protection has failed, it is said, let us go back to Free-trade. But the majority of Italian cotton manufacturers are not ready for this reform. Their only idea is to tread the beaten track of monopoly still further, appealing to Government for a higher Protection still, and still greater facilities for extortion from the Italian people.

Meanwhile, the clamour against fiscal imposts grows ever stronger in other directions. Consumers' associations are active, but the retailers are more active still. The Druggists' Society of Milan and Lombardy affords an example. It called a mass meeting on December 26<sup>th</sup> to protest against the import tax on sugars, and issued the following manifesto:

The druggists of Milan and Lombardy, having held a special meeting on December 11, 1910, for the purpose of discussing the unjustifiable increase in the price of sugar, and of effecting a remedy for the same, give notice to all the citizens that this increase has been promoted by the National Refineries, which have combined together in a trust, which, not paying the protectionist tax of 30 lire per quintal, is in this way privileged. These refineries have raised the price of foreign refined sugars by another 10 lire per quintal, regulating their contracts in such form as to upset the whole of business. They, the druggists, are now deliberating as to means of reducing sugars to their proper value, and the nomination of a commission for the purchase of foreign sugar. Meanwhile they thank all the economic associations of Italy that are agitating for the same purpose, and appeal energeti-

cally to the Government for the abolition of the existing Protectionist tax on sugar, which, if it was justified at a time when the Italian sugar industry was of early growth, is now so no longer, inasmuch as the industry is in a sufficiently flourishing condition.

This agitation against the tariff amongst retailers should be of special interest as a caution to those engaged in similar commercial occupations elsewhere. Italian retail traders do not often co-operate as a class; competition is too keen, and jealousies too bitter. But the oppression of tariffs is forcing them to unite against the common enemy.

## 18.

### ITALY

#### COAL TRANSPORT MONOPOLY BETWEEN ENGLISH AND ITALIAN PORTS – STATE RAILWAYS

*From our Correspondent*

Turin, February 10

The Italian Government is endeavouring to find new means of protecting the national shipowners against foreign competition, as the old methods of fixed subventions and navigation premiums are more or less discredited. The old subventions and premiums are to be almost entirely maintained, and so the squandering of public money, which characterise any such protection to the merchant navy is to be increased still further. A sum of 500,000 lire is to be spent for the inauguration of the "Credito Navale". This institution will help to pay the interest due from shipowners to special banking institutions which encourage shipbuilding. The encouragement of shipbuilding by State-aided credit is likely to provoke irrational building. Adventurers will be tempted by the low interest at which the necessary capital can be obtained at the taxpayers' expense.

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18. February 18, 1911, pp. 333-334. The article, unsigned, was published in the section: "Foreign and Colonial Correspondence". Its attribution to Luigi Einaudi is probable because: a) of the wording: "From our correspondent, Turin, February 10"; b) the treatment of the argument bears strong similarities with Einaudi's article in *Il Corriere della Sera* (September 1, 1912), entitled "La diserzione delle aste pei servizi marittimi".

The second new method of encouraging shipbuilding and navigation in Italy is to be a partial monopoly for the Italian flag in the coal transport between Great Britain and Italy. Our statistics give the following figures for coal imports into Italy:

	Tons
1901.....	5,904,578
1905.....	6,437,539
1906.....	7,673,435
1907.....	8,300,439
1908.....	8,452,230
1909.....	9,303,506
1910 (11 months) .....	8,624,400

As 95 per cent. of the coal imported into Italy is from Great Britain, the Government schemes relating to coal transport touch the British shipowners very closely. Already in 1885 a premium of 1 lira per ton carried had been promised to coal transports bearing the national flag; but, as no results followed, the premiums were abolished by a law of 1895. The present proposals will not touch general traffic, which will remain free to all flags. The Italian coal vessels will have the privilege of transporting a part of the coal necessary to State railways and to the Royal navy. The Government agree to contract exclusively with Italian companies the transport of 600,000 tons annually for the State railways and 100,000 tons for the Royal (war) navy. The contract will last ten years. The freight is fixed for the first five years at lire 8.50 (6s 10d) from any of the English ports of Cardiff, Penarth, Barry, Port Talbot, Newport (Alexandra Docks), to any of the Italian ports of Maddalena, Savona, Genova, Spezia, Livorno, Civitavecchia, Gaeta, Napoli, Torre Annunziata, Palermo, Taranto, Brindisi, Ancona, and Venezia. The freight for the second five years will be fixed on the basis of the mean freights resulting from Cardiff freights-bulletins and from the freights paid by the State railways administration for the transport of coal exceeding the 600,000 tons reserved to Italian carriers.

The privileged companies are to be administered by Italian citizens; the ships are to carry the Italian flag, and to be inscribed in the *Italian National Register*. Eight steamships will have to be built in Italy after the passing of the law; their designs must be approved by the Marine Department, which will insure that the ships are adapted to the transport of coal and naftatine. The building of these eight ships is to be reserved to Italian shipbuilders, provided that the price tendered is not more than 7 per cent. over the mean price tendered by six first-rate



shipbuilding English firms, exclusive of the lowest and of the highest price. The ships are liable to requisition for the use of the navy in the State interest or for some public necessity; in this case an indemnity will be paid. As a compensation for their obligations the companies will receive, in addition to the freights as above determined, a sum of 300,000 lire annually, to be distributed amongst them in proportion to the coal carried.

A few observations will suffice. Any privilege of coal transport, however limited to transport on behalf of State railways and Royal Navy, is an infringement of the international treaties of navigation between Great Britain and Italy. The English Government should study the situation with great care, and make the necessary diplomatic representations to the Italian Government. Should it succeed in its remonstrances, the English Government will have saved a round sum of money for Italian taxpayers, and will have benefited the genuine interest of Italian industry. We Italians can gain nothing from fostering a commercial fleet which will prosper only at the expense of the taxpayers, and will hasten the financial ruin of the State railways. The net profit of the railways is rapidly dwindling, and one of the main causes of this wreck is the high price they are forced to pay for all their necessities. Cars, locomotives, rails are to be bought from Italian makers at prices greatly enhanced by privileges granted by law. At the beginning the contracts had to be granted to Italian makers provided that the price tendered did not exceed by more than 5 per cent. the lowest price tendered by a foreign firm. Afterwards the comparison was made with the mean of foreign firms; recently in the making of the mean foreign price, the highest and lowest tenders were excluded. The interested circles are clamouring to have the limit raised from 5 to 7 per cent., and to exclude all foreign tenders which do not appear to be fair to bureaucracy. If we are to add to these protectionist measures the privilege of coal transport granted to Italian vessels, we shall foster an artificial industry which will from time to time clamour for the progressive raising of their fixed freights above the level of competitive rates. Advocates of State-owned railways should pay a lengthy visit to Italy and watch the consequences of State administration. Great cost, increasing confusion, utter indiscipline amongst the railway servants, and gigantic squandering of public money to car, locomotive, and rail makers.



## 19.

## MUNICIPAL TARIFFS IN ITALY

*From an Italian Correspondent*

Readers of the *Economist* may remember a letter from Turin, Italy, published a year ago, in which was described the rise of municipal protection incidental to the *octroi*, or municipal Customs tariff, levied in most Italian cities. The writer at that time only quoted the Turin case, as the problem, which was there discussed, ended in the victory of the municipal protectionists over the partisans of internal free-trade. But there remained the suspicion that the evil system was ruling in other towns also. The *Riforma Sociale*, a Turin Free-trade review, therefore, set on foot an inquiry, for ascertaining the facts. The results of the inquiry, which was conducted by Professor Giuseppe Prato, are published in the March-April supplement of the review.

Municipal protection appears to be widespread. The problem is of more than national interest, because the commercial treaties stipulated between Italy and foreign countries are, by these tariffs, set at defiance, and their value in not a few cases is practically reduced to nothing. A third of the Italian people live in walled towns, and it is the most wealthy portion of the population which consumes most foreign goods.

What is the use, then, to Great Britain, Germany, France, and Switzerland of signing a commercial treaty with Italy if every one of the councils and mayors of Italian towns can exclude foreign goods by a supplementary duty levied for the purpose of protecting the internal industry against the rivalry of external Italian and foreign goods? The fundamental *octroi* law gives the right to cities and towns of assessing consumable goods so as to bring in a local revenue. Local consumption and the revenue were the ideas underlying the system. As time went on the municipal tariff was used to serve private interests. The tariff items were multiplied, as in the State tariffs of protectionist countries. The Turin tariff, in schedule VI. and VII. (food and drink), contains 23 items of taxation, in schedule VII. (fuel) 10, in IX. (fodder) 4, in

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19. May 13, 1911, pp. 1008-1009. The article, unsigned, was published in the first section of the newspaper. It summarizes an inquiry on municipal tariffs by Giuseppe Prato, published in *La Riforma Sociale*. At the beginning, the article refers to a letter "from Turin ... a year ago"; this reference is incorrect because no such letter exists. The intended reference could be "The Italian wheat tax and the Turin octroi", March 14, 1908, by Edoardo Giretti, published in the section: "Letters to the Editor". Its attribution to Luigi Einaudi is uncertain: according to a letter from the editorial staff of *The Economist* (June 30, 1911), Einaudi contributed to the newspaper in the period April-June 1911.

X. (building materials) 5, in XII. (soap and fats) 4, in XI. and XIII. (furniture and miscellaneous) 11. At Genoa, in the above schedules, the taxation items are 30, 10, 3, 26, 6, and 14 respectively; at Venice, 26, 5, 0, 9, 9, 7; at Florence, 69, 11, 5, 22, 17, and 30; at Bologna, 27, 5, 5, 9, 1, 9.

This multiplication of tariff items is a sure index of protectionist purposes. Another sign is the high rate of duties. At Turin the tax on tapestry paper (*carta da parati*) is 20 lire per quintale (1 quintale equals 220 lbs avoirdupois), on stearic candles 15 lire, on chocolate and sweatmeat 25 lire, on furniture 20 lire per quintale, on liquors 40 centesimi (4d) per bottle. At Genoa furniture is taxed from 10 to 25 lire per quintale, according to quality, looking-glasses at 25 lire, paper at 25 lire, perfumes and fine soaps at 50 lire, chocolate at 30 lire, stearic-candles at 30 lire. Florence taxes the porcelain with a 6 lire duty per quintale, artistic furniture with 25 lire, earthenwares (*terracotte ornamentali*) by 1.50, and perfumes by 30 lire. Venice taxes artistic crystals and glasses with a duty of 30 lire per quintale, furniture with 40 lire, looking-glasses with 30 lire. Each town taxes preferably the goods which are produced by a local internal industry, so as to exclude from the internal market the *extra-moenia* produced goods. In some cases the protectionist purpose is made clear by a comparison of the duties levied on raw materials and on manufactured articles. The following are the duties, in lire per quintale, on some peculiarly interesting tariff items:

	Marble			Wood and Timber			Iron and Steel	
	Raw	Sawed in Boards	Finished	Raw	Semi-manufactured	Furniture	Raw	Manufactured
	Lire	Lire	Lire	Lire	Lire	Lire	Lire	Lire
Ancona.....	0.20	0.40	1	—	—	—	—	—
Bari.....	0.30	0.35	0.55-1	—	4	4-10	0.50-0.80	4-6
Bologna.....	0.60	1.50	—	—	—	—	—	2
Brescia.....	0.30	0.60	0.65	—	—	—	—	—
Catania.....	0.20	1	2-6	0.75	3	8-30	0.20-0.40	1.50-6
Firenze.....	—	1.50	6	0.50	8	5-25	0.80-1.50	5
Genova.....	—	1	3	1-4	10	10-25	—	4-6
Livorno.....	0.40	—	2	—	1	4	0.35-0.80	1.50
Mantova.....	0.10	—	4	—	1	4-8	0.70-1.20	1.20
Milano.....	0.65	1.25	2	—	—	—	—	—
Modena.....	0.30	2	3	—	—	—	0.15	1-4
Piacenza.....	—	—	—	—	—	—	0.60	1.60-3.20
Roma.....	0.50*	0.75*	1.75*	—	2-7.60	7-12	0.20-0.50	1-5
Savona.....	0.25	1	3	—	—	—	1.50	2-3
Torino.....	0.30	—	2	0.12	5	6-20	—	1.50-6
Vercelli.....	0.20	—	0.80	—	1	2.80	0.50	1.20-3

\* Per cubic meter.

Clearly the municipal tariffs are so contrived as to admit free or tax lightly raw materials, and to increase the taxation of the article if more finished. The internal industry is thus permitted to introduce freely raw materials, and is protected by heavy duties against the external imports of semi-manufactured or wholly finished articles. The results of those Protectionist duties are, for the purpose of taxation, exceedingly small. The total income from municipal Customs in Rome in the year 1908 was 19,128,253 lire; but the protective duties contributed to this total only 1,369,028 lire, or a 1-14<sup>th</sup> part. At Naples the total income in 1908 was of 11,143,591 lire, toward which the protective duties contributed 592,504 lire, or a 1-20<sup>th</sup> part. At Florence in 1909 the protective duties give to the municipal exchequer 500,146 lire, surely a small proportion of the total *octroi* income of 7,390,333 lire. At Turin, in the year 1909, the income from protective duties was of 665,943 lire on a total of 13,821,014 lire, and the city income from protective duties is further lowered by the drawbacks granted on the goods manufactured *intra-moenia* when they are exported. In the year 1909 the city of Florence had to pay the sum of 106,745 lire for drawbacks, and the city of Turin the comparatively large sum of 1,010,720 lire. The drawbacks are, in reality, true export premiums, which are intended to benefit the external consumers at the expense of internal taxpayers. At Florence raw marble pays *nothing* (as in the above table) when entering the walls of the city; yet obtains a so-called drawback of 1.50 lire per quintale when exported sawn in boards, and of 6 lire if finished. In Turin iron and steel manufactures obtain, when exported, a drawback of 0.50, 1.50, and 5 lire, according to quality, notwithstanding that the *raw* metal paid *nothing* when entering into the city.

Thus, in Italian cities there flourishes a petty Protection of the meanest type, which we owe to ignorance and intrigue. But a reaction is at last beginning. The aldermen at Milan (which is the freest of all the great Italian cities from the taint of municipal Protection) are meditating the abolition of one of the last remnants in that city of protective duties, the duty on liquor, which was so contrived as to bring yearly to liquor makers and liquor sellers a net revenue of 600.000 lire at the expense of the municipal exchequer. One may hope that the example will be followed by others. But the deliverance of Italian consumers from the grotesque municipal imitation of State Protection will be facilitated if the Foreign Offices of the countries which have signed commercial treaties with the kingdom of Italy call the attention of the Italian *Consulta* (Foreign Office) to the infringements of international agreements which are perpetrated by our municipal legislators.



## 20.

## ITALY'S INSURANCE MONOPOLY

With reference to our note on the subject last week, an Italian correspondent writes: – A Bill now before Parliament, brought in by the Ministry of Signor Giolitti, with the object of enforcing a State monopoly of life insurance, is marked by a glaring and contemptuous challenge to all the accepted principles of right. No indemnity is allowed to those whose property, goodwill, and means of life are seized on the pretext of a superior public interest. An article of the Bill expressly declares that the concerns to be expropriated will not be entitled to claim any compensation from the State. They will be bound to keep their present engagements, whereas their clients will be allowed either to keep or cancel their contracts. Once the Bill be passed into a law, no company or concern, either Italian or foreign, will be entitled to underwrite a new policy of life insurance. The business will be managed by the State through the “Istituto Nazionale di Assicurazioni”. Any Italian citizens who should attempt to elude the severe clauses of the new monopoly by insuring their lives through some foreign company will be liable to heavy pecuniary penalties, and, after a previous conviction, also to imprisonment. All this is conceived in the style of a rash and most violent socialism, and the Bill is a discredit to its author, the new Minister for Agriculture, Industry, and Commerce, Signor Nitti. We had expected far better statesmanship from the distinguished professor of the Naples University, who has been a brilliant Parliamentary critic of many Ministerial Bills in these last years. It is still more disheartening to find that this strange and absurd attempt has not provoked an immediate and open revolt in the Ministerial rank and file. It appears that Signor Giolitti expects to have the Bill passed into a law as soon as possible by his faithful majority in Parliament, his special object being to give his Socialist allies in Parliament and in the country some earnest of his intention to start a scheme of old-age pensions, to which, indeed,

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20. June 21, 1911, pp. 1356-1357. The article, unsigned, was published in the section: “Notes on Business and Finance”. Its attribution to Luigi Einaudi is probable because: 1) the treatment of the argument bears strong similarities with several of Einaudi's articles in *Il Corriere della Sera* during 1911 and 1912; 2) according to a letter from the editorial staff of *The Economist* (June 30, 1911), Einaudi contributed to the newspaper in the period April-June 1911.

he proposes to dedicate the prospective profits of the State life insurance monopoly. But, apart from the grave mistake of confounding together two questions quite different and separate, it is by no way certain that the State will get any money at all from the new monopoly. The calculations of Signor Nitti seem to be utterly ungrounded, and there is a legitimate fear that (as has been the case with the railways monopoly) the "Istituto Nazionale di Assicurazioni" will result in a bitter disappointment for the taxpayer. In the meantime, this attempt to suppress the life insurance industry will involve the Government in some serious international misunderstandings. Many foreign companies are at present working throughout Italy in the life branches of insurance, and they have spent much money in order to secure the business of their Italian customers. Whether the letter of existing treaties be infringed or not, undoubtedly the spirit of international equity is violated by this insurance monopoly Bill.

## 21.

## AN ITALIAN EXPLANATION OF THE RAID ON TRIPOLI

*To the Editor of The Economist*

Sir, — I do not propose to criticise your analysis of the relations between Great Britain and Italy and your severe comments upon the action of my Government in the Tripolitan affair. As an Italian, I feel bound not to enter upon a ground so controversial. But you will find it, perhaps, interesting to take note of some aspects of Italian opinion, which, if adverse to blind Chauvinism, has been nevertheless somewhat incensed by the language of the foreign Press. Even among those who are positively adverse to the conquest of Tripoli, the accusations, of brigandage, piracy, violation of international law, and buccaneering appear strange. What we are attempting in Tripoli, says this moderate section of public opinion, may be robbery, but if so, how does it differ from the occupation of Egypt by Great Britain, of Tunis by France, or of Bosnia Herzegovina by Austria? In all these cases

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21. October 21, 1911, pp. 824-825. The article, signed Italicus, was published in the section: "Letters to the Editor". Its attribution to Luigi Einaudi is certain because of a letter dated January 21, 1912 from Einaudi to Luigi Albertini, editor of *Il Corriere della Sera*, in which he declared he was Italicus (see appendix).

the *forms* have been better observed; perhaps better pretexts were invented; but the substance of the robbery was identical. This is plain robbery, while the others were more prudent and hypocritical. And it is much to be doubted whether Dr Jameson's Raid on the Transvaal was in any way better than ours in Tripoli; it must indeed have been worse; for the Boer Government was very much better than the Turkish administration in Tripoli. As during the Boer War Italy was in full sympathy with Great Britain, so we are – says this section of Italian opinion – at a loss to conceive why the British Press should be so severe toward us.\* Why should we be so severely criticised for having followed the examples set before us by the great colonisers of our age? The surprise may be excessive, but, as a matter of fact, Italian opinion *is* surprised at being criticised by those who have profited by crimes perhaps worse than ours. In this surprise, I admit, there is a want of discrimination, for the Press which has been adverse to piratical designs in their own country is perfectly right in opposing our Italian expedition.

And now to the origin of the expedition. I will not make comments, but only elucidate facts. You said that the expedition was quietly planned by the Government, imposed upon the Italian public by the concocted news and distorted reports of some Italian journalists quartered in Tripoli, and backed especially by Sicily. I know nothing of the secret affairs of the Italian Government; but the invasion of Tripoli by journalists of the Chauvinistic tendency was prior to the fall of Signor Luzzatti's Ministry, and the return to power of Signor Giolitti. That the Luzzatti Cabinet would have made the present expedition is highly improbable, and I would say inconceivable. Not as a friend of the Young Turks, but as a friend of international peace and an enemy of financial embarrassments, Signor Luzzatti would never have undertaken a war. A couple of Italian journalists were already in Luzzatti's time busy with Tripoli. Their plan was the old plan of the yellow Press of America and Europe – the manufacture of opinion in a grossly exaggerated manner, so as to provoke colonial fevers, war scares, &c. The English public is too familiar with these proceedings to be surprised by an Italian application of these new journalistic methods. Tripolitania and Cyrenaica were pictured as enchanted countries, as an ignored Eldora-

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\* The point is well taken as regards those English writers who praised the Jameson Raid, which, however, was not a Government affair, whether approved by Mr. Chamberlain or not: Ed. *Economist*.



do, where raisins grew in abundance, whose olives date back to Roman times, where wheat yielded most prolifically. One correspondent, in the enthusiasm of the discovery, announced the existence of olive trees in a part of the country where he had seen some trees of a similar appearance, which are, in fact, the trees of the wild juniper. Another correspondent, speaking of Tunis and of the miraculous progress of this region under French rule, as an index to the future progress of Tripolitania under our rule, declared that the yield of wheat in Tunis is already magnificent, and superior to that of Italian wheat lands. As evidence of this he gave some figures, from which anyone, by a simple rule of elementary arithmetic, could deduce that the yield of wheat in Tunisia was less than 4 quintals per hectare! Whereas the mean Italian yield is above 10 quintals, and is far from high. So gross was the agricultural, mineral, and commercial incompetence of the Chauvinistic journalists who forced the conquest of Tripoli on the Italian Government!

A second factor in the affair has been the facility with which the Government was forced on a path to which it seemed little inclined. Signor Giolitti is a keen, cunning; clear-minded man. He is a strong man in the sense that he has personally *made* some 100 members of the Chamber out of 508; and these 100 members are his life guards. As no other man in the Italian Parliament has so strong a following (the other leaders have at most from 5 to 20 faithful followers apiece), he is easily master of Parliament. He is, moreover, a practical administrator; he has *made* nearly all the *prefetti* (heads of the 69 *province*, or counties, who exert a great power over the elections); he has adopted since 1900 a sane Liberal policy towards the masses and towards the movements for higher wages. And so he has become, and will for some time remain, the real master of Italy. But with all these qualities, good and bad, he is not a great statesman. The only idea to which he steadfastly held has been the neutrality of the State in the labour question. Notwithstanding his own band of 100 followers, he is desirous of avoiding too much opposition in the Chamber. This desire has grown with age; and as he knows that out of the other 400 members half will always follow the Government of the day for the sake of the great and petty favours which it can dispense, all his aims are bent towards conciliating the most formidable or the most clamorous section of the remainder. Of these, roughly, 100 are extremists (Radicals, Republicans, and Socialists), and 100 are wild members or disbanded followers of Signor Sonnino, Signor Luzzatti, &c. These are not, or were not up to quite recent times, very troublesome, for the temper of the lea-

ders was easy-going and somewhat academic. The 100 extremists seemed, on the contrary, to be dangerous. Signor Giolitti is, however, not the man to be embarrassed by differences of opinion. To the Radicals he gave some places in the Cabinet, and as the Radicals are men without any ideas, save the idea that places are desirable, their group was quickly pacified. To the Socialists he also offered a place, which was accepted by one of their leaders. The Socialist party, indeed, preferred to keep itself free from direct Governmental responsibility, but obtained, as a return for silence and support, the promise of universal suffrage, and of the monopoly of life assurance as a step to old-age pensions, to which the profit of the monopolisation of life assurance was to offer the initial financial means. The quiet of Cabinet life in the Chamber seemed to be thus assured, as the opposition was limited to the small group of Republicans and the non-combative followers of Signors Sonnino and Luzzatti. But I have already taken up a great deal of space, and I shall, with your permission, resume this political analysis next week.

I will here only add a few lines as to the effects of the enterprise upon the welfare of our country. I do not think that your observations, accurate as they are, are complete. If the alternative were really, as you say, between *a*) a loss of some hundred millions, perhaps of some milliards of lire in a costly expedition; and *b*) the possibility of useful internal reform on education, sanitation, afforestation, taxation, &c., the selection would easily be made by any reasonable man. We have in the southern provinces of Sicily and Sardinia too much social work to do to be able to surrender our scanty national resources in Tripoli. But the true problem is different. The ways which present themselves to Italian Statesmen are three, not two: *a*) To spend 500 millions or 1,000 million lire in Tripoli, at a heavy cost to the Italian taxpayers and to Italian credit, &c.; *b*) to spend the money on education, sanitation, tax relief, &c., to the great benefit of the masses and the taxpayers; *c*) to squander the same, or even larger sums, on increasing our armaments in competition with Austria, on the growing bureaucracy, on unremunerative increments of salaries of public servants, on gifts out of the public purse, to petty local interests, to protected manufacturers, and to noisy groups of workers backed by Socialists. — Yours, &c.

ITALICUS

Milan, October 17th.

## 22.

## AN ITALIAN EXPLANATION OF THE RAID ON TRIPOLI

*To the Editor of the Economist*

Sir, — I now continue my last week's letter, which stopped short in my political analysis of the motives which took us into war with Turkey. In the youngest section of the constitutional opposition there was growing up a sentiment of rebellion against the personal rule of Signor Giolitti, who was considered more of a cacique election maker or of a boss in the American sense than of a leader. These opponents were labelled by the old Giolittian guard with the nickname of Young Turks of Italy. As Cavourian Liberals they are opposed to the Socialistic measure of State nationalisation of life assurance, but are favourable to old-age pensions. Some of their little band also favour State intervention in shipping, and advocate imperialism and colonialism. Very few, indeed, perhaps not more than a dozen, are the true Liberals, and as they are scattered in the various personal groups, or are "wild" members, they are without the slightest influence in the Chamber. These so-called Young Turks contemplated a struggle with the old chief (the *dittatore*, as Signor Giolitti is called by the Opposition) upon the life assurance nationalisation proposal. This proposal was an ill-judged confiscation of private property, as no compensation whatever was to be granted to national and foreign companies. It was a long step toward the enlargement of bureaucracy, the greatest peril now confronting Italy. The struggle lasted in the Chamber much too long for the Premier's taste, for the old Opposition joined the "Young Turks" in criticising the scheme, and the independent Press vehemently condemned it. The struggle ended in a partial victory of the Cabinet, as the Chamber sanctioned the principle of nationalisation of life assurance. But the detailed discussion of the Bill was suspended for the time, to be resumed in November.

The unexpected vigour of the Liberal-Conservative-Young Turkish Opposition came as a surprise to the chief. As he does not like struggles, the Tripoli campaign appeared as a means of conciliating all sections of

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22. October 28, 1911, pp. 883-884. The article, signed *Italicus*, was published in the section: "Letters to the Editor". Its attribution to Luigi Einaudi is certain on the basis of a letter dated January 21, 1912 from Einaudi to Luigi Albertini, editor of *Il Corriere della Sera*, in which he declared he was *Italicus* (see appendix A).



public opinion. He is not a man of strong convictions, and converted himself in five minutes from an opponent to an advocate of universal suffrage, when that seemed likely to procure the silence of the Socialists (in March, 1911, the most noisy group in the Chamber). Similarly, during the recess, he converted himself to colonialism, which he had hitherto always despised and ignored. He hoped, by the conversion, to silence, if not to conciliate, the enemies of his personal chieftainship, who unexpectedly had grown numerous and restless, and had selected the nationalisation of life assurance as a ground of offence. He hoped that in the enthusiasm of the conquest the few rebels against his life-tenure of office would be silenced. Signor Giolitti is as a white-haired man of seventy desirous of a quiet life, but is also very fond of power, and hates the idea of a successor. The King, also, is much attached to Socialists, and loves Signor Giolitti, the man best able, at the present time, to conciliate the extremists, and is said to have decided to grant only to him the right of dissolving the Chamber. This exclusive right assures in perpetuity to Signor Giolitti his own band of 100 followers and the passive acquiescence of other favour-seeking members.

The calculation was cunning, and if the Tripoli expedition does not prove too difficult and costly, may be successful. At the present time Signor Giolitti is enthusiastically acclaimed at home and in the streets, at Rome and at Turin, as a new Cavour and as a great statesman, by politicians, by the classes, and by the masses. The Socialists, indeed, opposed the Tripoli design before the Ultimatum, and the Labour Confederation proclaimed a day of general strike on September 27th. The Socialist members petitioned the President to call together the Chamber. Some Radicals and a few Republicans also profess opposition. But all this is on the surface. The workers did not go on strike. At the reopening of the Chamber the Socialists, after a show of opposition, will vote in favour of the Government for the sake of universal suffrage, and their dislike of the few Clericals in the Chamber and the "Young Turks" group. The constitutional Opposition, the "Young Turks" group, will swallow the universal suffrage and the life assurance nationalisation for fear of being accused of unpatriotic behaviour toward a Cabinet which has added a great Province to the country. The Radicals are mere place hunters; and the Republicans, left to themselves, are of no consequence.

The comic side of the matter is that even the Clericals, notwithstanding the Roman question, show every sign of favouring the Tripoli expedition. One reason may be that the enemies are Turks, and therefore the hereditary foes of Christendom. The Catholic newspapers contain long accounts of Lepanto's victory, and bishops publish epistles in commendation of the

holy enterprise. The second reason is that the Catholic missions are prominent in the little Italian colony of Tripoli. The third, and perhaps the most important, reason for the enthusiasm of the Catholic Press may be that the Banco di Roma for some time past has been active in Tripoli. The Banco possesses a small fleet, has erected a flour mill, and has acquired a large area of land from the natives. The operation of a fleet by a banking concern is a ludicrous enterprise. The flour mill was erected to grind Tripoli cereals, but it was afterwards found that there were none to grind, and at present it appears that the mill is busy chiefly with Russian wheat for re-export. The cultivation of the land does not appear to have been very successful, so that the work of the Banco di Roma was restricted to loans to the commercial and agricultural class. The Banco is itself a mystery. It has a capital of 150 million lire (£ 6,000,000), which was increased in a few years from a small initial capital of the millions. For several years it has paid a regular dividend of 7 per cent. No one in Italian circles knows, however, how and where the Banco gains its dividends. Its work in the busy places of Milan, Turin, Genoa, is insignificant. The public know only that the Banco is connected with the Papal exchequer, and it appears that it is trustee for the Obolo di San Pietro, Saint Peter's pence — *i.e.*, the sums which are paid voluntarily by Catholics to the Roman cathedral. As the Obolo di San Pietro has been several times since 1870 robbed by unfaithful trustees, one may hope that the Banco di Roma will prove a better servant of the Church.

But, after all, the Tripoli enterprise is not exclusively a politician's device to gain power. Signor Giolitti probably would have preferred some other means of silencing the little Liberal-Conservative—"Young Turk" opposition. The enterprise was forced on him also by the Yellow Press, which, in its turn, has been profiting by a peculiar state of mind of the younger generation. The Tripoli movement is an intellectual movement. In the nineties young men turned to Socialism. The years from 1890 to 1900 were the golden age of Socialism. All were Socialists, all that was enthusiastic and ardent in Italy. After 1900 Signor Giolitti's politics transformed Socialism. The great merit of this able politician was to comprehend that repression of the working masses was a most mischievous policy. The murder of King Humbert took the courage from the old Conservatives. The new King was in full sympathy with the new ideas and with Signor Giolitti. Socialism went into power; Socialist members were in high favour in Governmental circles. With favour came some good things: impartiality toward working men during the labour struggles, some new labour legislation, &c. With favour came also corruption. The Socialist members are to-day as much favour-seeking, place-hunting men as the other mem-

bers. They seek favours for their co-operatives, they drive the Government to support working men in the labour struggles. They are Protectionists when the supposed interest of the working classes is concerned. They vote the war and Navy Budget, which they denounced in past times. They are the bravest supporters of bureaucracy in all the attempts of that pest to plunder the Italian Exchequer, and have preferred to increase the salaries of public servants – whose unions and federations are, almost all, in full sympathy with the Socialist-Radical *bloc* – rather than diminish taxes which oppress the poor.

The degeneration of Socialism left the new generation without ideals, without wrongs to be remedied, without a word to congregate around. Nationalism arose in this wilderness. The old so-called Liberal-Conservative parties are cliques who follow personal chieftains, of whom the foremost is Signor Giolitti; the new parties, Radicals and Socialist alike, were discredited. Enthusiasm found its development in the new creed of Nationalism. There is some good in the movement. The noblest preachers of the new gospel desired to revive the patriotic sentiments which have made Italian unity; they view with regret the millions of emigrants who enrich foreign lands by their unremitting labour, and transform themselves in a few generations into peaceful members of foreign political aggregates, speak foreign languages, and are lost to Italy for ever. The new Nationalism wants a greater Italy for the Italians of the future.

One must add another aspect of Nationalism. The Adua defeat was, economically speaking, a blessing for Italy. The defeat put an end, for a dozen years, to military extravagance, and caused the recovery of Italian finance and Italian economics. But the moral wound, as time passed, is more deeply felt. All the European Powers gained something in the universal scramble for colonies; Italy alone, with Spain, remained with clean hands. The *mani nette* (clean hands) politics became at last irritating. The last blow was the annexation of Bosnia-Herzegovina by Austria. There was a great outcry of destroyed Adriatic equilibrium and other such nonsense. At the bottom of the outcry was a sentiment of being despised as a small, contemptible country, defeated by Austria at Custoza, Lissa, and even at Adua by the hand of a negro king. When France and Germany began to discuss the Morocco question, the sentiment that some moral wrong was done to our country appeared to be well-nigh universal in the upper classes. Even the masses were affected. Nationalism saw that the hour of action had arrived; the Yellow Press worked up the movement. Even some old moderate newspapers, very prudent and respectable, joined in the request that something should be done.



There were not wanting courageous journalists, who, apart from party considerations, took the problem in hand, and tried to demonstrate the folly of selecting Tripoli as a colony for our emigrants. The figures and facts which the *Economist* has already enumerated were published also in Italy. *La Voce*, a little weekly Florentine newspaper, undertook a Press campaign against the Tripoli enterprise. But all was in vain. The numerous factors, which I have endeavoured to expose, were too powerful to be overcome.

You have referred to the economic cost of the war. There is also the cost of armaments. The sums squandered, from 1900 onward, would have permitted the abolition of the salt tax, a great reduction in the corn duty, an improvement of the whole tax system, and, in addition, the accomplishment of great educational and sanitary reforms. Something has been done. It is only fair to remark that the death rate has decreased from 30 per thousand in 1880 to 20 in 1910, and that the illiteracy diminished from 68.77 per 100 inhabitants over six years old in 1871 to 48.49 in 1901. The education budget of the State, Provinces and Communes has been greatly increased. The petroleum tax was reduced from 48 to 16 lire per quintal. Much more, however, might have been done if we had not squandered the magnificent surpluses in the years after 1900 on increased armaments and on a multitude of petty favours to the most clamorous classes. The student is bound to conclude that the greatest misfortunes of Italy have recently been her Budget surpluses. They caused a scramble of all the bad appetites rooted in the nation. The expenditure on public servants alone increased by some 300 millions in ten years, and there is no end to the increase. If Italy had not been fighting in Tripoli, sanitation, education, tax reforms would not have been improved. The sectional groups, which are too powerful to be overcome by a personal Government such as that of Signor Giolitti would have continued paramount. The Tripoli enterprise may perhaps be a remedy, a somewhat circuitous and very bad remedy, but still a remedy for the situation. How can a Government conceivably propose the construction of roads in Tripoli if roads are lacking in Sicily and Basilicata? How can the Government propose to build water reservoirs in Tripoli if water reservoirs are not built in Sicily and in all the Italian Provinces where they would produce magnificent results? How can the worst grievances of the Arabs grumbling under the taxation system of the Turks be remedied, if similar reforms are not yet accomplished in Italy? In the same way, something must be done in Italy if similar things have to be done in Tripoli, and less will remain to be plundered by petty interests.

The Budget surpluses will dwindle. That will be an achievement worth the whole trouble. When the hordes of Italian plunderers of the public exchequer find nothing to plunder, there will be an end to public robbery in Italy. *Vacuus cantat coram latrone viator*, as was the Gladstone motto. The Socialist party, which is to-day a mere machine for the use of a small section of the higher-paid working men in protected industries, will perhaps recover some of its ancient vigour.

Will the Italian  $3\frac{1}{2}$  per cent. Rentes sink below par in consequence of a war loan? Perhaps they will sink, but then we shall not be worse off. What is the use of keeping the price of the  $3\frac{1}{2}$  per cent. Rente above par, if the Government is obliged to sell its railway stock below par, and the public will not take it, so that the Savings Banks are overstocked with unsaleable paper? What is the use of having a  $3\frac{1}{2}$  per cent. Rente keenly required by a saving public, which knows of nothing different, if industries are obliged to pay  $4\frac{1}{2}$ - $5\frac{1}{2}$ -6 per cent for the debenture capital which they require? The State is pumping the greater part of the saving of the nation by means of the saving postal system, and by pressure on the independent Savings Banks, so as to dispose of the said capital for various State enterprises and for growing municipal needs. The rate of interest is low in Italy for State loans, State guaranteed loans, and high for the private enterprise. A public war loan of 500 million lire may possibly not be floated at par. If so, the responsibility for the fact will not lie upon Tripoli.

By all sorts of contrivances (selling of unsaleable railway bonds to savings banks, pressure on independent savings banks to buy, constitution of syndicates for sustaining the quotations, syndicates headed by the Bank of Italy, &c.), our small loans can be made at a low rate of interest; and so Italy can continue to boast of its  $3\frac{1}{2}$  per cent. above par. If a Tripoli war loan, coming on the market all at a time, had the virtue of restoring the market to its natural condition. I say so much the better. The higher rate of interest will act as a deterrent to new debt expenditure for other purposes. The timid capitalist will be frightened out of State Rentes, and will return to industrial investments.

New taxes will be necessary. And I say that new taxes are not an un-mixed evil, for the taxes will have to be laid on the classes, as the masses will not consent to pay more. When the Bill is presented to Parliament, the classes, which are loud in protests of patriotism, will begin to think better of the marvellous virtues of colonialism.

ITALICUS

Milan, October 20<sup>th</sup>, 1911.

## 23.

PRESENT CONDITION OF THE  
ITALIAN STATE RAILWAYS. I*From an Italian Correspondent*

On July 1, 1905, the principal Italian Railways began to be worked by the State. Before that date there existed a so-called "mixed" system, under which the Railways were operated by companies, who leased them from the State in return for a royalty upon the gross and net working receipts. This arrangement had the evident defects of placing the companies, who owned the concessions, under the sinister influence of politics, and making them lose interest in improving the working, through fear of increasing the royalties payable upon the gross traffic receipts. It was established by the Conventions of 1885, and consisted of three railway systems run by three companies – the Mediterranean, the Adriatic, and the Sicilian. The continuous and troublesome interference of the Government, and the small amount of concern which it showed to fulfil its obligations towards the companies, added greatly to the unsatisfactoriness of this absurd arrangement. Moreover, the commercial crisis caused by the imposition of Protection, and the tearing up of the Treaty of Commerce with France in 1888, had entirely falsified the optimistic anticipations upon which the companies had based their agreement to alleviate the pressing needs of the Italian Treasury. Consequently, the companies were for their part not particularly concerned to maintain the conventions which required renewal in 1905. For some years past, fortified by the large number of actions which were pending against the State for breach of the most solemn engagements, they had begun to neglect the regular maintenance of the lines and equipment, thus provoking general complaints from the public. The advocates of State intervention, therefore, worked upon exceptionally favourable ground. The campaign for nationalisation was conducted by Conservatives and Socialists, allied for the occasion with the same financial groups which controlled the railway companies. It was strongly supported by the bureaucracy, which is ever on the watch to increase the number of administrative

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23. November 4, 1911, pp. 931-932. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable: the treatment bears strong similarities with some of Einaudi's articles published in *Il Corriere della Sera* in the previous year: "Le ferrovie ai ferrovieri", July 28, 1910, and "Il progetto ferroviario. I punti di consenso e di divario", December 1, 1910.



posts. Further, the repeated strikes of the railway staffs, which the Government had to bring to a close by paying for a rise of wages granted by the companies, had spread abroad a feeling that the railway service would be much better assured if it was directly controlled by the State, and if all the men employed were called "public officers". These were the circumstances which led to the passing of the law of April 22, 1905, which directed the transfer to State management of the railways, which were already public property. The change was to take place as from July 1<sup>st</sup> of the same year. Shortly afterwards the Southern Railway was repurchased, and the State became at once the owner and the manager of most of the railways in Italy and Sicily.

When comparing the results of direct operation by the State and by the leaseholding companies, two things must be remembered: 1) That the management, even before 1905, was largely effected by the same inconveniences and defects which characterise the industrial enterprises of the State or of large public bodies; 2) that Italy, in taking over the management of the Railways in 1905, had to provide for insufficiencies of equipment and maintenance, which were mainly due, however, to her own lack of vigilance and control.

From the point of view of communication itself it must be admitted that the railway service has shown considerable improvement during the last few years, especially since the muddle of the first two years of State management. Travelling on the Italian Railways is less bad, and, on the main routes giving through communication with foreign railways, passengers have few complaints to make. Even on the secondary lines the number of trains has increased and the passenger service has been separated from the goods service, making it possible to avoid the constant delay caused by the obstruction of the stations, and shunting on tracks which are usually single, and inadequately provided with sidings. After these admissions the question arises whether the improvements have been in proportion to the expenditure by the State and the sacrifices demanded from the Italian taxpayers, many of whom are in too wretched a condition to profit by the advantages offered by State Railways. The answer to this question is an absolute negative.

To begin with the financial results, facts have confounded in a striking manner the expectation of those who regarded State management as an inexhaustible source of public revenue. After deducting taxes (which weigh upon State management as upon that of the companies, and cannot be counted as a revenue drawn from the railways), we find that the companies, before 1905, paid to the State about 65 millions of lire annually from

their receipts, which, under the same conditions but with an increased traffic, would now have risen to at least 80 millions of lire. The following table shows the actual net revenues which have been paid into the Treasury by the State Railways, omitting the abnormal year 1905-6:

Fiscal Year	Millions of Lire
1906-7 .....	43
1907-8 .....	37
1908-9 .....	20
1909-10 .....	37

These figures are deceptive, and the growth which they show between the two last years is caused by a manipulation of the accounts adopted for the double purpose of hiding from the taxpayers the financial disaster of working the railways, and maintaining the illusion of a more or less artificial increase in the State budget. The way in which it was done was to pass a law in 1909 relieving the Administration of the Railways of several big items of expense. Signor Ancona, a deputy and a very competent engineer, has reckoned that the relief afforded by the Act of 1909 amounted to a total of 24 millions of lire, so that the net revenue paid by the Administration of the Railways to the Treasury in 1909-10 was really only 13,000,000 lire. But, as Signor Ancona pointed out, this correction is not yet sufficient. Another lightening of expenditure must be taken into account, amounting to from eight to ten millions of lire, due to the reduction of the charges for renewals from 4 per cent., upon the gross receipts, to 2½ per cent. A total deduction, therefore, of from 32 to 34 millions of lire must be made from the net revenue of the State railways for the year 1909-10, and the same will have to be done for the year 1910-11, the actual results of which are not yet published. In addition to this, last year has seen a new State service between the Italian mainland, Sicily and Sardinia, which will yield a further deficit of several millions of lire. The most manifest and certain result of the exploitation of the railways by the State, therefore, is that in a period of live years the State has lost its income from the capital of 5,000,000,000 lire spent on the construction, purchase and equipment of the railways.

To this sum, which may be considered as the share capital of the railways, about 1,000,000,000 lire must be added for advances made by the Treasury to the Administration of the Railways. The latter has hitherto paid the interest and sinking fund upon the advances, just as if the money had been borrowed in the form of debentures by an ordinary joint-stock company. But the tendency is for the Administration of the Railways to relieve

itself of the charge, while, at the same time, getting further free advances from the Treasury. It has already demanded 30,000,000 lire per annum in this form to double the most important tracks.

## 24.

### ITALY

#### THE COST OF THE WAR

#### *To the Editor of the Economist*

Sir, – My letters on the causes of the Italian expedition to Tripoli have been misconstrued by some Italian newspapers, and were denounced as an act of treachery in time of war. As, in common with *all* Italians, now that the expedition has been decided, and is carried on by our Government, I wish for victory to our Army and Navy, and say that *all* Italians must be prepared to every sacrifice of blood and money, for the sake of avoiding a termination similar to the peace with the Abyssinian negro King, so I can disregard such criticisms of treachery. As a student, I had only drawn an objective picture of the various forces which have led to the expedition. These forces are, at the present, undiminished, and, so to say, merged in a general wave of patriotism, which urges the Government to go on to the end, and triumph over the Turkish and Arabian troops. The extraordinary levy of the classes of 1888 and 1889 has been easily accomplished; subscriptions for the wounded soldiers at Tripoli are pouring in to the leading newspaper. The public is indignant at the misrepresentations in the foreign Press of the alleged murder of Arabians by the Italian soldiery. Our war correspondents, some of whom are of the highest standing and are veterans in the war field, deny the butchery, and reduce the fact to a natural reaction against the rebels of the Tripoli oasis, during which some women may have been shot by error, or as a consequence of their having been surprised firing at our soldiers. The fact certain is that our soldiers are not bloody veterans, but conscripts of from 20 to 23 years, and of a good and mild character, trained to pa-

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24. November 18, 1911, p. 1051. The article, signed Italicus, was published in the section: "Letters to the Editor". Its attribution to Luigi Einaudi is certain on the basis of a letter dated January 21, 1912 from Einaudi to Luigi Albertini, editor of *Il Corriere della Sera*, in which he declared he was Italicus (see appendix).



tience in our country in all cases of riots and strikes, who must have been driven by desperation to revenge.

It is also certain that the difficulties of the expedition, however unforeseen by most people, are exciting the public opinion to more vigorous action. Now, what as to the social and financial effects of a prolonged colonial war? In the last issue of the *Economist* you predict failures, fall of the Italian credit, banking difficulties, unemployment, and a terrible reaction. As I do not know the future, I may say that much will depend on the cost in men and money of the war. The estimates of the money cost are varying. The first estimate of the Government was 100 million lire; later the figures were changed, by a newspaper inspired by the Premier, to 40-45 million lire per month (£ 1,600,000 to £ 1,800,000 sterling). The Government denied, on the basis of the above figures, that a loan is necessary, even if the war had to be continued for a year. The Italian Treasury possess at present a liquid fund of about 300 million lire, can oblige the banks of issue to issue 125 million lire of paper currency, and can, without having recourse to Parliamentary sanction, issue Exchequer bills up to 300 million lire, of which only 80 million lire are at present outstanding. If the Government think it convenient to having recourse to these means, the issue of a loan may be postponed for a long time. One may observe that the issue of 125 million lire paper currency is a perilous measure with the change at 101, that the Exchequer bills are disguised loans, and that the Treasury fund of 300 million lire cannot be completely depleted, as some monetary fund is necessary for the financial administration of a great State. It appears, however, that if the total cost of the war will not exceed some 500 million lire, the Government can well dispense for the moment with a public loan. The loans will be made in after-time, when it will be possible to float at a convenient price. The price will be probably lower than par, but, as I said in my last letter, the effects will not be bad. The loan can be floated also in France, which is well disposed towards us, and the taxpayers will not feel greatly the pinch of the war, especially if the workmen and peasants can be spared from taxes. Some classes will be crying, those classes which feed on the Budget, and find that all the spare sums go at present to Tripoli. A curious incident has been prominent in the Milanese Press of the last week – a protest against the lamentations of a professor in the secondary schools, who was grieved at the prospect of an indefinite postponement of a rise in the salaries of professors, owing to war expenditure. Public opinion and the greatest part of the professors

themselves declared that all were ready to renounce advances for the sake of the country.

I do not know if the cost of the war will rise above 500 million lire, or like sum, and I am unable to say if the present enthusiasm will survive so great a burden. Then the consequences will be more serious; then, perhaps, the Italian Rentes would fall more than a few lire. But the hypothesis is, at present, somewhat distant.

ITALICUS

Milan, November 13<sup>th</sup>, 1911.

## 25.

### PRESENT CONDITION OF THE ITALIAN STATE RAILWAYS. II

*From an Italian Correspondent*

One of the most serious complaints brought against the State Administration is the slowness with which alterations are made to meet the growth of commerce. The traffic on the Italian railways has increased very largely since the transfer of the service to the State. The total gross receipts, which averaged 327 millions of lire between 1902 and 1904, under the old management, amounted to 481 millions in 1909-10. The equipment, which was already very insufficient in 1902-4 in respect of fixed appliances, has not by any means increased as fast as the traffic. Signor Sacchi, the present Minister of Public Works, admitted last June, in the Chamber of Deputies, that there was urgent necessity for doubling the track over 1,600 kilometres of lines with traffic of from 25 to 45 trains per day. This, he said, would require 450 millions of lire, as soon as possible, but the State would not be able to assign more than the very modest sum of 15 millions of lire annually. A large part of the advances made by the Treasury to the Administration of the Railways has been spent on improving the rolling-stock. In this the Administration has not considered exclusively the real exigencies of the service. It has had, more or less with its consent, to obey the same political influences which, at the time of the Nationalisation Act, succeeded in obtaining a legislative preference for

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25. December 23, 1911, pp. 1320-1321. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable: it is the continuation of the article of November 4.

national industry, in addition to that of the existing high tariff. In the scramble for contracts many new works sprang up for constructing rolling-stock, and ever since then they have incessantly importuned Members of Parliament and Ministers to give them orders, using as an additional inducement the phantom threat of industrial unemployment. The rolling-stock of the railways has therefore grown out of all proportions, not only to the necessities of traffic, but also to the development of sidings. While the old companies possessed, in 1899, on an average, 62 metres of sidings for each empty wagon, 50 metres being considered necessary, in 1909-10 the proportion had been reduced to 25.10 metres for each of the 90,000 wagons forming the actual reserve of the State Railways. In spite of the fact that many wagons were forced to remain unused in reserve sheds, the late President of the Council, Signor Luzzatti, again yielded to the clamours of the vested interests, and promised the construction of 8,000 more wagons above the usual number, which is about 5,000 per annum. This new construction was, subsequently, owing to the objection of the General Committee on the Budget, reduced to 4,000 wagons, at an estimated cost of 29,000,000 lire, which might have been saved, according to the opinion of competent experts, by more efficient circulation of the existing wagons and better maintenance. About 15 per cent. of the wagons are always under repair, and the figure for passenger coaches is 33 per cent. I shall skim over the mistakes committed by the Administration of the State Railways (which are extremely amusing, except for the taxpayers), and shall confine myself to certain instances which have been constantly repeated in Parliament without meeting with any official denial. There are cases of old locomotives being newly painted and bought as new; 112 rail motors condemned one after another as useless, and converted into stoves; sleepers of concrete which broke when a train passed over, and others of soft deal, bought by hundreds of thousands, useless attempts to strengthen them being made by injecting creosote; the purchase of 15,000 kilogrammes of gum arabic, 200 kilometres of red velvet, a million file handles, and so on.

It has now been discovered that all these occurrences are the inevitable consequences of the excessive centralisation set up in the State Administration. A new law recently passed by Parliament has just made a radical change in the system set up in 1905, and remodelled several times since that date. Having destroyed with a fury, comparable to that of Attila, all the organs of the old leaseholding companies, the Government now believes that it has made a mistake. In the new law, therefore, the



Administration is trying to retrace its steps by modelling the State railway service, as far as possible, upon the old system, followed with very good results by the Adriatic Company. I believe, however, that the problem is not merely to decentralise the heavy and cumbrous machinery of the present State Administration. It is chiefly to discover whether the new organisation elaborated by the Minister of Public Works, Signor Sacchi, will succeed better than the present one in defending itself against the Protectionist and political forces which have hitherto been dominant, and are undoubtedly the principal cause of the bad administration of the railways and the shameless squandering of public money. It is no unreasonable estimate that the annual expense for maintenance of the Railways, for the replacing of the fixed equipment and rolling-stock has been increased by one-third in consequence of the preference given to national industry. To the open Protection resulting from Customs tariffs and the increase of prices established by law it is necessary, in many cases, to add fines for late delivery pardoned by the Government for political or electoral purposes. Moreover, the law has expressly recognised the principle that the Railways exist to give work to steel manufactories and Italian construction yards, and that the orders should be equally divided among the different producers of the same product. Combination of manufacturers and State contractors, which is forbidden by the law, is thus authorised and encouraged by the Administration of the State Railways. These factors add an enormous load of dead weight to the cost of materials and the working expenses of the Railways, but there are other considerations, on the revenue side, which tell in the same direction. Too many people travel free on the Italian Railways, and it often happens that all the first-class carriages are occupied by people who have not paid for their ticket, whether because they are employees, or on account of some other privilege. Free passes upon the State railways are distributed with astonishing liberality, and have become one of the most frequent methods of political corruption in the hands of the Government. There are passes of several kinds and every colour; for State employees, for high and low functionaries, civil and military; a special kind is reserved for journalists and friends of Ministers, who find no difficulty in posing as journalists. Deputies and Senators not only do not pay for their tickets by reason of their office, which, after all, would be reasonable, as they receive no pay, but they receive every year 18 free tickets, 12 of which are sent without asking, and this is quite unreasonable.

In the goods service the same disorder and disregard for business principles prevails. All organised political interests have succeeded in ob-

taining reduced rates. As many as 776 special tariffs and 1,569 items have been counted as in existence for the benefit of particular firms. The only rule which the Administration of the Railways has enforced upon the powerful interests which are combined against it has been to diminish the responsibilities fixed upon it by law. Every delay, every loss, and all damage to merchandise, are invariably considered by the Administration of the Railways as the result of *force majeure*, for which the Administration cannot be held responsible. When the excessive formalities which complaints have to go through do not suffice to tire the patience of the complainants, the judicial procedure, with its eternal delays and heavy charges, supervenes. On principle the Legal Bureau of the State Railways never gives way until after the most insistent proceedings, as it knows that it can fight longer than most of its opponents.

I may conclude this necessarily condensed article by saying a few words about the *personnel*. The position of the Railway employees has considerably improved ever since the rise of wages, for which the State agreed to pay before it took over the control. By the recent law new increases have been granted, especially to the lower and less well paid grades, to the amount of 21 millions of lire per annum. These increases were very fair and inevitable, since the small wages paid for 15 or 20 years past have become starvation wages, on account of the general rise in the cost of living. Even with the increases, most of the railway employees have not much cause to consider themselves privileged, in comparison with what they could get in the open industrial market. One problem to be solved was how to prevent the increased wages from diminishing the profits of the Railways. There were two alternatives. Either large economies could be made in other expenses, or the work done by each workman could be increased by improved organisation of work. A big industry under intelligent private enterprise would undoubtedly have solved the problem to its own profit and to the benefit of the public. Italy has failed piteously. She has only succeeded in increasing the total number of railway employees, who numbered 104,833 on an average between 1902-4, to 143,910 in 1909-10, the last year for which the exact returns exist. It is useless to retort that the increase has been mainly in the relatively unproductive central bodies of organisation and control, which usually fail completely to fulfil their function.

## 26.

## DEAR MONEY AND STOCK QUOTATIONS IN ITALY

*From an Italian Correspondent*

Accommodation for traders and *entrepreneurs* is scarce; the official Bank rate is 6 per cent., and the market rate rules from 5 per cent. for the very best firms up to 7, 8, and 10 per cent. for second-rate firms, or even first-class companies which happen to be deeply indebted to banks. But the capitalists who buy Rentes and Exchequer Bills have no taste for trading investments, so that one may feel sure that the 400 millions issue, referred to in one of your "Business Notes" last week,\* will be a success. It cannot be said, however, that this and the previous issues will be without influence on securities bearing a fixed interest, for it is impossible to ask the market for vast sums for the accommodation of the Government, cities, railway companies, &c., without exerting a sensible pressure on the fund from which all savings come. As one may see in the last Budget speech of Signor Tedesco, the deposits (ordinary and saving deposits) in the banks of issue, ordinary banks, people's banks, savings banks, post office banks, and rural banks increased from 6,200 million lire on December 31, 1909, to 6,490 millions on June 30, 1910, to 6,702 millions on December 31, and to 6,934 millions on June 30, 1911. Truly a remarkable record. But the increase after June 30, 1911, is diminishing; on December 31, 1911, the deposits had increased only to 6,997 millions, and six months later, June 30, 1912, the total amounted to 7,051 millions. What the total was on December 31, 1912, one cannot say. In some directions the deposits appear to be diminished, for the Savings Bank of Lombardy, which is the leading Italian savings bank, and one of the very first in the world, has published the following provisional statement of the operations in the year 1912:

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26. February 15, 1913, pp. 331-332. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable: the treatment of the argument bears strong similarities with Einaudi's article of January 9 in *Il Corriere della Sera*, entitled "Il momento attuale dei mercati finanziari e le previsioni per il 1913".

\* "Italy's Issue of Exchequer Bills", February 8, 1913, pp. 285-286.



Deposits at January 1, 1912.....	Lire
	812,096,705.05
Deduct —	
Surplus of reimbursement over	Lire
deposits.....	25,712,922.73
Interests accrued.....	22,384,079.14
Net decrease of deposits.....	3,328,893.59
Deposits at year-end.....	808,767,901.46

The decrease of 3,328,893 lire upon a total deposit of 812 million lire is a small thing, but points to the pressure which a succession of public issues exercises on the savings of the nation.

Up to date one cannot say that the new issues of 4 per cent. Government notes have had an influence on the old  $3\frac{1}{2}$  per cent. Rentes, but their effect on other bonds will be seen in the following table, in which, for the sake of comparison, all values are reduced to the same basis (par = 100 lire):

	Dec. 31 1911	June 30 1912	Dec. 31 1912	Jan. 31 1913
Italian Rentes, $3\frac{1}{2}$ % net.....	100.45	97.25	98.10	99.00
Rail. State bds. 3% (2.31% net).....	71.00	67.00	68.00	66.60
Railway State bonds, 3% net.....	89.00	84.40	83.20	82.80
Real estate bonds (Credito Fondiario Italia- no), $3\frac{1}{2}$ % net.....	96.80	95.60	92.40	92.40
Ditto of the Savings Bank of Lombardy, $3\frac{1}{2}$ % net.....	99.00	96.50	94.80	94.80

The Italian Rentes have maintained their high quotation in a wonderful manner, but other bonds of the same high standing had to give way before the competition of the new 4 per cent. Exchequer Bills; railway State bonds 3 per cent. net have sunk from 89 to 82.80, a price which should be much more attractive to the capitalist than the 99 of  $3\frac{1}{2}$  per cent. Rentes, especially when one takes account of the fact that the railway State bonds are redeemed at par by yearly drawing. Notwithstanding that, the railway State bonds are almost unsaleable at the current prices, while the  $3\frac{1}{2}$  per cent. Rentes are very easy to realise. Some say that the difference between these two identical State securities is a proof of the factitious character of the high price of Rentes. Others observe, with justification, that the 3 per cent. railway State bonds are apt to be outclassed by the competition of new higher interest-bearing securities. The public does not like them, and the same public prefers the  $3\frac{1}{2}$  per cent. Rentes, which are so easy to buy and sell, and which can be registered or passed to bearer as desired.

The share market during 1912 has fluctuated irregularly, and it is difficult to say whether the high rate of interest and the competition of the

new 4 per cent. State securities have had a depressing influence on the dividend stocks. I have selected a few among the securities mostly quoted in Italian bourses, and give below the price at different dates, the last dividend, and present yield:

	Price			Last Dividend	Yield at the Price of Jan. 31
	Dec. 31, 1911	Dec. 31, 1912	Jan. 31, 1913		
Bank of Italy .....	1,442	1,462	1,466	45	3.35
Commercial Italian Bank .....	872	862	868	45	5.20
Italian Credit Bank....	580	562	572	30	5.25
Meridional Railway of Italy .....	616	585	570	29	5.05
Roman Houses Institute.....	318	298	298	14	4.70
Electricity of Lombardy Co.....	1,090	1,000	1,000	55	5.50
Rossi Wollens Co. ....	1,570	1,474	1,474	80	5.40
Italian Printed Weaving Co.....	178	138	138	12.50	8.95
Eridania (sugar) Company .....	730	750	740	55	7.45
Elba (mines and iron) Company .....	230	206	188	—	—
Savona (iron) Company .....	270	235	215	—	—
Terni Steel Co. ....	1,470	1,615	1,620	80	4.95
Fiat .....	144	148	138	8	5.80
Italian Paper Co. (Cartiera Italiana).....	1,156	1,160	1,180	57.50	4.90

The banking shares are somewhat lower in comparison with December 31, 1911, but the yields are not excessive. The Bank of Italy shares are regarded as gilt-edged security with some chance of increase in dividend, and so the very low yield of 3.35 per cent. can be justified. The 1912 dividend, which will be paid in April, will be increased to 46 lire. The Meridional of Italy shares are lower, owing, in part, to lengthy litigations with the State. The decrease in the price of the shares of the Roman Houses' Institute (*Istituto Romano di Beni Stabili*) is only apparent, being due to a new issue of shares, with a substantial profit to shareholders. The company is splendidly managed, and the next dividend will be increased to 14.50 lire. The Electricity of Lombardy Company (*Società Lombarda Energia Elettrica*) is depressed by the crisis in the Italian cotton industry, to which the company sell their electric power. This

crisis, to which the fall in the shares of the Italian Printed Weaving Company (*Società Italiana Tessuti Stampati*) is due, is a typically financial affair. In the boom times of 1900-7 many cotton companies were formed with insufficient capital, and to-day are loaded with debts. The cotton companies, which pursued a sound financial policy, had quite a good year in 1912, and are declaring better dividends. The sugar companies, of which Eridania is a conspicuous example, give a high yield, owing to uncertainty as to fiscal policy. The sugar protection will have to be withdrawn some day, and artificial profits are bound to diminish. Bad finance, uncertainty as to the future fiscal *régime*, and the prospective exhaustion of Elba iron ore mines, explain the absence of dividends and fall in the iron companies, Elba and Savona. The abundant State orders for the naval programme explain the increase of quotations and low yield of Terni Steel Company. The Fiat Company are the world-famous motor producers, and the recent fall in shares is of a special character. The company, after the boom of 1906 and subsequent crisis, was entirely reorganised. The last shares quoted in the above list are of a first-class paper-making company, whose quotations have never been touched, even in the worst days of the 1907 crisis, in the first months of the Tripoli War, and in the black days of the outbreak of the Balkan War. Prudent management and good financial methods explain the progressive advance of this share as well as others which could be mentioned. One may add that good shares do not come frequently on the market. The Bourses are languid, as the public do not take the rubbish which is floated and manipulated by professional operators, while the Government is absorbing the best part of the nation's savings, and the industrial and banking shares are left to shift for themselves.

## 27.

RATE OF EXCHANGE, BUDGET AND  
ECONOMIC CONDITIONS IN ITALY

*To the Editor of the Economist*

Sir, — As I am the editor of the *Riforma Sociale*, of whose annual supplement by Professor Bachi, entitled “L'Italia Economica nel 1912”, you

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27. September 27, 1913, pp. 606-608. The article, signed, was published in the section: “Letters to the Editor”.



published a lengthy review in your issue of August 30<sup>th</sup>, I think you will consent to a few comments on some of your reviewer's observations.

First, as to the rate of exchange. Your reviewer, quoting Professor Flora, writes that the present high rate of exchange, due in part to the issue of £ 5,000,000 (125 million lire) in Treasury bills, is equal to an additional tax of 82 million lire on 3,604 million lire of imports, or to a tax of 1,250,000 lire on the 60 million lire paid by the Exchequer on the Public Debt.

As a matter of fact, the £ 5,000,000 were not Treasury bills, but gold transferred from the *Cassa dei Depositi e Prestiti*, where they lay as a guarantee against the State notes, to the Treasury, and thence to the Bank of Italy's reserve, to be used eventually as a guarantee against a corresponding issue of £ 5,000,000 of additional bank-notes. Moreover, the five million additional bank-notes were not issued, and could not, therefore, cause the rise of the exchange.

I do not think that the high rate of exchange, which rose from 100.50 in the year 1911 to 102.80 in the first months of 1913, to decline recently, in August last and in the present month of September, to 101.40, is equal to a tax of, say, 3 per cent. on the 3,500 million lire of imports. If the price of imports is raised the price of exports is correspondingly raised; and as the exports, visible and invisible, amount to the net figure of 3,500 million lire, the gain is theoretically equal to the loss. The high rate of exchange is pernicious, as economic theory shows, not because it is high, but because it fluctuates, first rising and then declining. As all prices do not fluctuate at the same rate, some producers and consumers and creditors are bound to suffer, while other producers and consumers and debtors gain; and it happens that the greatest number will suffer, while the relatively few gain.

As to the causes of the recent fluctuations of the rate of exchange, opinions differ widely in Italy. Some eminent writers – and their opinion is corroborated by the high authority of Signor Stringher, the director-general of the Bank of Italy, and of Signor Tedesco, the Treasury Minister – ascribe the rise to unrest in European money markets, accumulations, and perhaps to some decline in the invisible exports – *i.e.*, in the credits for remittances of foreign visitors in Italy and Italian emigrants abroad. These writers assume that the mischief will in the end mend itself, the money markets will be again normal and the currents of invisible exports will again flow towards Italy; and they point to recent experience – the last decline from 102.80 to 101.40 – as a proof of their thesis. Another group of writers, to which I belong, think that the greatest part of the rise of the exchange rate is due to over-issue of bank-notes between December, 1910, and De-

cember, 1912. Previous to the £ 5,000,000 operation – to which your reviewer alluded – the total bank and State note issue increased from 2,468 to 2,678 million lire.

The increase was probably in part the consequence of a decrease on the credit side of the Government current account with the Bank of Italy. The Bank of Italy is the banker of the Government; and the Government deposits are high or low according to the state of the Treasury, as is the case in Great Britain as between the Treasury and the Bank of England. Up to 1911 the credit balances in favour of the Government were sometimes very high, up to 300 million lire; in 1912 they fell below 100 million lire. To reimburse the public deposits, the Bank of Italy was compelled to issue notes, and so the note circulation rose. It is true that these notes were entirely covered by gold and silver; but we contend that a note issue which is not exchangeable at par can be excessive, even when fully covered.

The debate, which has been carried on in scientific reviews like the *Giornale degli Economisti* and the *Riforma Sociale*, and in daily newspapers, such as the *Corriere della Sera*, *Giornale d'Italia*, *Tribuna*, *Stampa*, *Economista d'Italia*, was highly interesting, and many of the arguments used were akin to those which were current in Great Britain in the first and second decades of the last century. I hope that the practical result of the controversy will be satisfactory. The opposing groups have maintained their original views; but the director-general of the Bank of Italy has emphatically asserted its intention of limiting the existing issue till the rate of exchange falls below the gold point.

Second, as to Budget manipulation. Your reviewer unfortunately confuses the careful and prudent observations of Professor Bachi with the comments thereon, couched in strong and technically incorrect journalistic language, of the *Critica Sociale*. The truth is that our Italian Budget methods are somewhat too refined and scientific. Our national Budget is divided into four sections: I. Effective income and expenditure; II. Railway building; III. Capital accounts; and IV. Sums which appear alike on the credit and debit side of the Budget. Leaving out of account the fourth section, which is purely figurative, one may easily perceive that the nature of the first section is entirely different from the second and third section. The first section comprehends the effective income by direct and indirect taxes and the effective annual expenditure. The second and third sections relate to expenditure on capital account, which can be rightly offset by issue of debts. If you build a railway which costs 100 million lire you can rightly incur a debt of 100 million lire, as the railway will not consume itself in a year. In practice, the railway and other capital

expenditure in past years were partly offset by excess of income over expenditure in the first section, and partly by issue of debts. The real surplus in Italy cannot be gauged without considering all the sections of the Budget.

There are, moreover, several separate accounts, which do not enter into the Budget, *e.g.*, the Budget of the State railways, the Budget of the Commissioner of Emigration, of the Religions Fund, and the all-important Treasury account. Expenditure on the war in Lybia was first charged to the Treasury account, to be amortised in successive years by appropriation of the Budget surpluses. Over 200 million lire have been thus amortised up to date.

I admit that these Budgetary methods are somewhat complicated; and some eminent Parliamentarians have criticised the present Government on that account for concealing from the public the true cost of the war. But even in Great Britain some expenditure has in the past been charged to separate accounts, if not without expostulation; and I suppose that the German and Austrian and Russian Budgets are much more difficult to analyse than our Italian Budget. It might, I think, be made more clear to the general public; it is clear enough to those who understand the principles on which it is based. To the initiated it seems a not over-difficult task to unravel the mysteries of the various capital and current accounts contained in our Budget and in the annexed accounts.

The gist of Signor Bachi's argument is that the Budgets after 1910-11 are not comparable with the Budgets of a decade ago, as the contents of the various sections were changed in the meantime by laws and regulations; so that a surplus in 1912-13 is a different thing from a surplus in 1900-1901. Several competent men have in and out of Parliament advocated a return to previous rules, which they consider more clear, and have opposed the new methods, by which an actual expenditure is spread over a number of future years, or the gross amount of public debt increased in various ways not clearly perceptible by the general public, as by subsidies to railway companies, &c. There are many men in Italy who think that our Budgetary methods, however theoretically perfect, may be usefully amended; but it is incorrect to describe – as does the *Critica Sociale*, which your reviewer quotes – a Budget as false which is technically made up according to existing laws and regulations.

Lastly, as to the present condition of Italian industry and commerce. As I write from the country I am not in possession of the statistics which would enable me to give an exact review of actual conditions. I am not, therefore, able to gauge the accuracy of your figure of 800,000 probable



emigrants from Italy this year. The figure seems exaggerated; but, were it correct, I would point out that the rise of emigration in 1913 is common to other European lands – in the first eight months of 1913 the emigrants from the ports of Hamburg and Bremen were 306,879, against 193,108 in the same period of 1912 – and may be in part explained by the more attractive economic outlook in the immigration countries.

I would summarise the conclusions of Bachi's Annual and of subsequent facts as follows:

1. Italy is going through an economic period requiring the greatest care and wisdom on the part of the leaders of commerce and industry. After some years of prosperity the world is faced by the possibility of a crisis. Italy cannot escape the common fate of all other countries, if that fate is to be realised.

2. Greater caution is needed in Italy than in France, in Great Britain, or in Germany, but not greater than in Austria-Hungary, because of the depressed situation of some great industries, *e.g.*, cotton, iron and steel, silk, &c. The root of the evil for these branches of industry lies in the over-production which commenced after 1900, and culminated in 1905 and 1906, which were years of feverish activity.

3. The Lybian and Balkan wars, by their pressure on the money market, have aggravated the depression by which these industries were already afflicted; but the depression originated in over-investment, over-capitalisation, an excess of floating debts. The industries which were not already in a bad way from internal causes have not felt as yet serious losses in consequence of the war.

4. Much will depend on the present agricultural outlook. As the 1913 wheat crop was good and reports of a good wine crop are coming in, I hope that the agricultural section of the population, which is the backbone of Italian economics, will be flourishing. As an index of the conditions of the agricultural community, one may quote the figure of the new deposits in the postal savings banks, which are mostly agricultural savings, and which are in the first seven months of the present year 37,833,282 lire higher than in the corresponding months of 1912.

5. The savings of the urban section of the population seem also not to have diminished. The 400 million lire of new Exchequer five-years 4 per cent. bonds have been entirely absorbed, and during 1913 capitalists have been buying no inconsiderable quantities of foreign bonds and rentes. No one can gauge the sum of Italian investments in foreign securities, but, as a guess, I will quote a figure of from 50 to 100 million lire yearly, which may be a very small sum for Great Britain, but is a great sum for us, but now

emerged from the list of debtor countries. Italy is not as yet a creditor country, but the interest and dividend item is bound to be in future years a not indifferent item on the credit side of our international balance of payments.

The crucial economic problem of the moment seems to be the elimination of the consequences of past over investment, and the freedom to be given to labour and capital to invest in industries natural to our country. Two different methods are advocated to that end. The old Protectionist method, which claims State aid to suffering industries, and higher and more "scientific" protection to promising branches of industry and agriculture; and the new Free Trade method – which is a revival of the older Cavourian system – which insists on the necessity of freeing the numerous branches of Italian industry and agriculture, whose productivity is high and is naturally rising, and which are capable of utilising the great capabilities of our intelligent, able, skilful working people, from the chains of high prices of raw materials and food. A movement is being organised by the *Lega Antiprotezionista*, which already has ramifications in Rome, Turin, Milan, Florence, &c., for bringing the truths of Free-trade before the public.

Much more could be said on the various aspects of Italian finance and economy, but I fear I have already trespassed on your valuable space. – I am, Sir, yours truly,

LUIGI EINAUDI

(Professor of Finance at the Turin University,  
Editor of *La Riforma Sociale*)

Celle Ligure, September 9<sup>th</sup>, 1913.

28.

## THE ITALIAN TREASURY BOND ISSUE

A *Turin correspondent informs us* that the recent issue by the Italian Government of 200 million lire of Treasury bonds has been a great

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28. January 31, 1914, pp. 228-229. The article, unsigned, was published in the section: "Notes on Business and Finance". It is an editorial summary, probably based on the correspondence of Luigi Einaudi because it says "A Turin correspondent informs us that".

success. The denominations of the bills were 2,000, 5,000, 10,000, 20,000, and 50,000 lire, payments to be made in four instalments, of 25 per cent. each, on January 31<sup>st</sup>, April 1<sup>st</sup>, May 30<sup>th</sup>, and July 1<sup>st</sup>. The issue was undertaken by a syndicate of the foremost banks of Italy, and the subscriptions were to be open to the public up to January 25<sup>th</sup>. But on January 21<sup>st</sup> the stock offered was completely exhausted, and the register had to be closed. The issue price to the public was at par, the interest offered 4 per cent., and the bonds are redeemable in five years.

The price paid by the underwriters appears to have been, like that paid on preceding issues, between 97 and 98. This is the third issue of five-year 4 per cent. Treasury bonds in Italy. The first, of 330 million lire, was made in 1912, the second of 400 millions in 1913; adding the present issue of 290 millions, the total of 1,020 million lire is reached. As there are, in addition, outstanding between 250 and 300 million lire of ordinary exchequer bills at three months up to twelve months date for the current needs of the Treasury, the total of five-year bonds and ordinary bills may be taken at 1,300 million lire (52 million pounds *circa*). About a fourth part of the 1,020 million lire five-year bonds have been issued to finance the Libyan war; the rest was required, first, for the State railways, and, second, for other public works and extraordinary expenditure. The success of the present issue was mainly due, as Professor Pantaleoni pointed out in the *Economista di Firenze*, to the savings of the southern portion of Italy. Southern Italy is almost a purely agricultural country, and in the last two years has enjoyed good crops and good prices. To the emigrants who formerly deposited their savings in the banks at 2.64 per cent. interest, the offers of State bonds at 4 per cent. proved attractive. In the North of Italy the fall in prices of shares, even those of the old Mediterranean Railway, has frightened capitalists, large and small, out of the share market. The fall of Mediterranean shares, due to various internal and technical causes, has also affected shares of very sound companies. The Northern Italian capitalist of to-day is determined to buy only bonds and rentes at fixed interest. According to the annual review of the Genoese bank of *Deslex frères*, in the past year upward of 100 million lire have been invested by Italian capitalists in Austro-Hungarian, Russian, Chinese, and South-American bonds.



## 29.

## POLITICS AND FINANCE IN ITALY

*From a Turin Correspondent*

There has been much talk in the last few days of a plan said to have been formed by M. Sonnino, the new Italian Minister of Foreign Affairs, for a regrouping, with Italy, of the Balkan States, or those which are still neutral – Roumania, Bulgaria, and Greece. The scheme is reported to be regarded with favour by Russia, which would do its best to persuade Serbia and Montenegro to join such a Balkan League. A Petrograd telegram states that Prince Troubetzkoi, the new Russian Minister in Serbia, has gone thither, clothed with ample powers, to work for an understanding between Bulgaria and Serbia. This suggests that there is some kind of formal understanding between the Italian and Russian Governments, and that the projected League may become a reality. The constitution of such a League, by eliminating the danger of a possible alliance between Bulgaria and Turkey, and settling the internal differences between the Balkan States, would, even if it involved the abandonment by Roumania, Bulgaria, and Greece, as well as by Italy, of their neutral attitude, constitute a great gain for the Allies. Italy, as the sponsor of the League, would have a very important rôle to fill. The League might be expected to exercise a most valuable influence in a future Peace Conference, which would be especially directed to secure the maintenance of the principle of nationality and respect for international law. It is, of course, not impossible that the League might at a given moment, by armed intervention, afford the Allies such assistance as would effectively hasten the termination of the war. The adhesion of Serbia and Montenegro would give the League full justification for such intervention in order to compel Austria-Hungary to cease hostilities against these two members, leaving it to the future Peace Conference to decide the original question of the ultimatum to Serbia. In the same way Italy, having reached an agreement with the other States of the League on Adriatic questions, would leave to the Peace Congress the settlement of its nationalistic claims to the Trentino and Istria, subject to the principle that all such questions

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29. December 5, 1914, pp. 990-991. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable because of the wording "From a Turin correspondent".

can only be properly settled by the application to the populations concerned of a plebiscite under European guarantee.

On October 20<sup>th</sup> the wheat duty was reduced from 7f 50c to 3f per metric quintal (100 kilos). The monthly statistical bulletin of the International Institute of Agriculture shows the steady rise of wheat prices at Genoa since war began. The figures are as under:

	National Wheat. Northern Italy (at departure). Per Quintal	No. 2 Hard Winter (on board, in bond). Per Quintal
	Francs	Francs
July 17, 1914.....	26.00	—
" 24, 1914.....	26.50	—
" 31, 1914.....	26.75	—
August 7, 1914.....	30.50	—
" 14, 1914.....	29.75	—
" 21, 1914.....	29.00	21.00
" 28, 1914.....	—	—
September 4, 1914.....	28.25	20.12
" 11, 1914.....	28.25	—
" 18, 1914.....	29.50	—
" 25, 1914.....	30.25	—
October 2, 1914.....	30.50	—
" 9, 1914.....	—	—
" 16, 1914.....	32.75	—
" 23, 1914.....	32.75	29.25
" 30, 1914.....	32.75	29.25
November 6, 1914.....	32.75	30.50
" 13, 1914.....	32.75	31.12

Statistics are now available of the import of wheat into Italy for internal consumption during the two first months of the war. They are as under:

	1913 Quintals	1914 Quintals	Average 1908-13 Quintals
August.....	722,100	669,130	814,100
September.....	794,100	242,760	888,556
Total.....	1,516,200	911,890	1,702,656

As the last crop of wheat in Italy has been valued at 46,115,000 quintals against 58,352,000 in 1913, and 46,574,441 in the average from 1908-9 to 1912-13, the figures show a shortage which amply justifies the upward tendency of prices, which have continued to rise during the last weeks, although a Royal Decree of November 14<sup>th</sup> prohibited the re-export of cereals and of foodstuffs generally unless specifically addressed to a foreign consignee. The practical importance of this Decree is that, whilst Italy declines the responsibility of suppressing the transit trade with Germany and Austria-Hungary, she ensures her own supplies of

wheat and foodstuffs in general against the application of the British contraband rules, and in particular against seizure as conditional contraband on board a vessel bound for a neutral port, if the goods are consigned "to order", or if the ship's papers do not show who is the consignee of the goods, or if they show a consignee of the goods in territory belonging to or occupied by the enemy. The following figures clearly show the importance of the re-export of grain now prevented by the Italian Decree and the British contraband rules, as the only cereals on which it is possible to rely are those imported through the Straits of Gibraltar under the control of the British Naval authorities:

WAGONS LOADED with CEREALS from GENOA to				
	Switzerland		Italy	
	1913	1914	1913	1914
August .....	897	497	2,683	1,193
September .....	522	717	2,495	467
October .....	868	925	2,442	340
November (1-8) .....	99	759	570	107
Total number .....	2,386	2,895	8,190	2,107

No doubt, by the suppression of the transit through Italy and Switzerland, Germany and Austria will be hard hit in their food supplies. A question which, of course, Italy and Great Britain will have to resolve in quite friendly spirit is that of allowing neutral Switzerland to import freely all the cereals and other foodstuffs which she may require in order to supplement the normal deficiency of the home crops. Even at this late date the total suspension of the import duty on corn till the next crop would be a practical measure of encouragement to the supply of foreign wheat.

The "Movimento Commerciale del Regno d'Italia nell'anno 1913", now available, gives the following figures for the special trade between Italy and the United Kingdom during the last five years:

	Imports into Italy	Exports to United Kingdom
	(Exclusive of Precious Metals)	
	Million Lire	Million Lire
1909 .....	490.64	167.93
1910 .....	476.27	210.36
1911 .....	509.83	222.80
1912 .....	577.13	264.41
1913 .....	591.78	260.50

Anglo-Italian trade for the year 1913 compares as follows with the other principal Italian imports and exports:



	Imports into Italy	Exports from Italy
	Million Lire	Million Lire
Germany .....	612.69	343.45
United Kingdom.....	591.78	260.50
United States .....	522.72	267.89
France .....	283.36	231.48
Austria-Hungary .....	264.66	221.15
Russia .....	237.37	60.93
Argentina .....	166.62	185.56
British India and Ceylon.....	146.04	49.46
Roumania .....	100.72	14.64
Switzerland .....	86.85	249.16
Belgium .....	77.05	57.79
Japan .....	60.78	4.60
China .....	56.05	5.92
Brazil .....	55.31	47.65
Total (with other countries)	3,645.64	2,511.64

Coal is far the most important import into Italy from the United Kingdom. The figures for the last five years are:

	Million Lire
1909.....	247.55
1910.....	227.56
1911.....	254.25
1912.....	310.94
1913.....	324.20

After coal, the more valuable imports from the United Kingdom into Italy were in 1913:

	Million Lire
Machines and parts of machines .....	23.17
Wollen and worsted manufactures.....	21.75
Sulphates .....	20.78
Ships.....	17.99
Cotton manufactures.....	12.65
Pig-iron .....	11.26
Fixed oils for industry.....	11.50
Wool, dyed, combed, &c. ....	9.77
Wool, raw, washed, &c .....	9.55

The principal exports from Italy to the United Kingdom, according to the Italian statistics, were in 1913:

	Million Lire
Silk goods and other silk manufactures.....	51.34
Eggs.....	15.34
Hides and skins.....	13.55
Fruits and vegetables, prepared .....	13.08
Cheese .....	11.00

Oranges and lemons.....	9.88
Hemp .....	9.80
Raw silk.....	9.15
Motor-cars .....	8.27
Rubber, wrought .....	6.24
Skin-gloves .....	5.46
Marble alabaster, wrought.....	5.19

The growing feeling of antipathy which now prevails in the Italian people against Germany and Austria-Hungary offers a rare opportunity to British exporters for developing their trade relations with the Italian market, in order to substitute British goods for many products which Italy largely imported from the Central Empires. The attention of British readers may be called particularly to the following items of German imports into Italy in 1913:

	Million Lire
Cotton goods and other cotton manufactures	23.76
Woollen and worsted manufactures.....	28.59
Works of iron and steel.....	31.20
Machines and parts of machines.....	64.85
Scientific and electrical instruments.....	46.26
Works and jewels of gold and silver.....	23.89
Works of rubber .....	16.62
Mercery, common and fine .....	20.19
Dyeing matters .....	17.86
Skins prepared.....	31.32

Of 264.66 million lire of merchandise imported in 1913 by Italy from Austro-Hungary, 101.08 million lire represented the value of one item, raw and sawn wood, for which a British colony, Canada, would not find it difficult to enter into competition in the Italian market.

### 30.

#### THE ITALIAN BUDGET AND THE LOAN

*From an Italian Correspondent*

The revised estimates of the Italian Budget for the year July, 1914-15, have just been issued. These show an estimated aggregate increase in ex-

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30. January 9, 1915, pp. 56-57. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because the treatment of the argument, widely discussed by Einaudi, bears strong similarities with the articles in *Il Corriere della Sera* in the same period.

penditure of 1,159½ million lire; an estimated aggregate decline in income of 123¼ million lire – *i.e.*, a net estimated deficit of 1,282¾ million lire. By far the largest item on the expenditure side is the Army vote, which has risen from 609 million lire in 1913-14 to an estimated 1,244½ millions – a rise of 635½ millions. The Navy vote has risen by 79¾ millions. The table shows the expenditure of these two departments for the last 10 years:

Fiscal Years	Million Lire (Spese effettive)		
	Army	Navy	Total
1905-6 .....	296.77	128.38	425.15
1906-7 .....	305.98	153.93	459.91
1907-8 .....	324.91	157.15	482.06
1908-9 .....	356.16	174.70	530.86
1909-10 .....	394.23	168.40	562.63
1910-11 .....	427.70	219.05	646.75
1911-12 * .....	537.82	307.12	844.94
1912-13 * .....	694.57	375.94	1,070.51
1913-14 .....	609.10	309.09	918.19
1914-15 (estimate) .....	1,244.68	589.06	1,833.74

\* Libyan War.

The extraordinary calls made on the Treasury for military preparations after the outbreak of the war strikingly contradict the official repeated boast of the former Cabinet of Signor Giolitti that the Libyan War had increased, and in no way infeeblled, the power of the Italian Army and Navy. By a right sentiment of national and patriotic duty, none of the few Deputies who spoke in the recent Parliamentary debates insisted on the much-discussed question of the real state of the Italian armaments at the moment the big European conflict broke out. The question, however, remains open for future exhaustive debates, and the present Premier, Signor Salandra, deserves most sincere approbation for his solemn pledge to communicate in proper time to Parliament all the necessary documents to clear up the responsibility of his own and of the previous Cabinets. Of course, the revised estimate of Signor Carcano, closing with a deficit of 1,282.91 million lire at the end of the present fiscal year (June 30, 1915), is founded upon the supposed maintenance of the Italian neutrality till the cessation of the war.

In the eventuality, ever more probable, of an armed intervention of Italy against the Central Empires in the months of next spring, we shall have to face a further rise in expenditure, and a simultaneous falling in the principal items of the revenue, which in the revised estimate of Signor Carcano has been in part made good by the imposition of new taxes.



The effect of the war on Italian national finance is reflected in a decline in total revenue for the four months July-October of 38.7 million lire. The revenue, which amounted to 702.5 million lire for the corresponding period of 1913, is down to 663.8 million lire. The heaviest declines are in Customs (– 30.2 million lire) and Excise (– 13.6 million lire); though the revenue from certain State monopolies actually increased – *e.g.*, tobacco, by 9.4 million lire. But the net decline in taxes on consumption amounted to no less than 33.6 million lire. Income-tax, succession duties, stamps, &c., fell by only 2.4 millions. On December 11<sup>th</sup> a Government Bill was passed by the Chamber by 260 votes to 45 increasing the taxes on income and capital by 10 per cent. This increase is additional to the 3 per cent. rise in all duties on income, stamps, &c., passed on June 26<sup>th</sup>. The Government has done well in not attempting to increase the already crushing burden of indirect taxation; but the income-tax is heavier than the British war tax. The table shows how the increase will affect the various classes of taxpayer:

	Rates Previous to July, 1914	Actual Rates After the New Increases
	Per Cent. of Income	Per Cent. of Income
Schedule A (from the ownership of lands).....	8.88	10
Schedule B (from the ownership of buildings).....	16.50	18.125
Schedule C (from Government provinces, boroughs and cities, and from State-guaranteed securities).....	20 20.80	20 21.40
Schedule D (from interest on loans and bonds).....	15.60	17.55
Schedule E (from business, corporate dividends, &c.).....	10.40	11.70
Schedule F (from professions, private salaries, &c.).....	9.36	10.53
Schedule G (salaries of Government, provinces, and cities and boroughs' officials).....	7.65 7.80	8.625 8.775

Graduated exemptions under Schedules E, F, G are granted in respect of incomes not above 1,500, 1,600, and 2,000 lire. Incomes under Schedules A and B are subject, as those under D, E, F, and G are not, to provincial and communal super-tax, which is generally so high as to treble the income-tax in respect of these Schedules.

For the moment the Treasury has met the exceptional strain of the extraordinary military expenditure by means of a floating debt, consisting principally of an enlarged circulation of notes, both of the State and of the three banks of issue (Banca d'Italia, Banco di Napoli, Banco di Sicilia).

Further, the issue of a loan has been arranged, with the approbation of Parliament, for 1,000 million lire in redeemable obligations at 4.50 per cent. net yearly interest, issued at 97 lire per 100. The public subscription of this loan, patronised by a consortium of banks, under the leadership of Signor Stringher, the director-general of the Banca d'Italia, will take place early in January.

The success of the operation seems yet solidly ensured, and it is facilitated by the convenient terms offered to the subscribers, among the others the possibility of getting from the banks of issue throughout next year an advance of 95 lire for every nominal 100 lire of stock deposited, interest at 4.50 per cent. yearly; and the exemption from the moratorium, now extended till March 31, 1915, off all sums withdrawn from the ordinary banks in order to subscribe to the new loan. The shares will be non-convertible and non-redeemable for 10 years, till January 1, 1925; during the subsequent 15 years the Treasury will provide the funds necessary for their extinction, which will be effectuated either by direct purchase of the stock, or by the means of a special sinking fund under the administration of the "Cassa Depositi e Prestiti". It is probable that the new loan will find favour with the Italian agricultural classes, in which the number of persons having some money at the savings banks or in the proverbial wollen stocking has grown considerably in recent years.

### 31.

#### ITALIAN LOAN AND REVENUE

The Italian loan (*writes a Turin correspondent*) for 1,000 million lire (40 million pounds sterling) at 97, 4.50 per cent. interest, was floated between

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31. January 23, 1915, p. 146. The article, unsigned, was published in the section: "Notes on Business and Finance". It is an editorial summary, probably based on the correspondence of Luigi Einaudi because of the wording "*writes a Turin Correspondent*".

January 4<sup>th</sup> and 11<sup>th</sup>. The subscription offices (banks, savings banks &c.) were crowded, especially by many small subscribers; many subscriptions were from 100 to 1,000 lire. The best results give 880 million lire subscribed in the kingdom and colonies by private subscribers, to which must be added the 500 million lire subscribed by the banking syndicate of guarantee; total, 1,380 million lire. As the private subscriptions will be allotted all the amount subscribed, to the banking syndicate will be allotted only 120 million lire out of their 500 millions. The issue was undoubtedly a success, the more so as many capitalists feared to subscribe today, in the expectation of the possible war and of new debt flotations. The Minister of the Treasury is deserving of credit for having first imposed taxes to pay the interest of the coming debt, and, secondly, of having, by the issue of the 1,000 million 25-year bonds, relieved the Treasury, whose situation was not over easy, owing to the policy of their predecessors of postponing the indispensable debt issues. The earthquake, which has made so many victims in a most beautiful region of Italy, the Abruzzi, is adding a new burden to the Italian treasury, in a moment in which the expenses for defence preparations grow by leaps and bounds. Statistics lately published give for November an increase in the international trade (in million lire):

	Imports			Exports		
	1913	1914		1913	1914	
July.....	236.3	254.4	+ 18.2	182.8	190.8	+ 7.9
August.....	237.3	167.2	- 70.1	197.9	86.9	- 111.0
September.....	264.4	102.3	- 162.1	196.7	123.2	- 73.5
October.....	299.5	142.5	- 157.0	237.1	173.9	- 63.2
November.....	331.9	166.6	- 165.2	233.3	182.8	- 50.5

The exports are gradually rising, but they are still much lower than in the years past. The first six months of the financial year 1914-15 (July-December, 1914) give (in million lire) the following results. The figures are relating to special commerce only, exclusive of transit trade.

	Second Quarter of		
	1913	1914	
Income-tax.....	267.6	279.4	+ 11.8
Succession duties.....	23.6	23.5	- 0.1
Stamps and other taxes on wealth.....	118.7	112.2	- 6.5
Total taxes on incomes and wealth.....	409.9	415.1	+ 5.2



Excise.....	107.0	90.6	- 16.4
Customs .....	161.8	102.1	- 59.7
Internal duties on com- modities .....	42.0	41.1	- 0.9
Tobacco, gold, and lottery monopolies .....	275.0	291.1	+ 16.1
Total taxes on commod- ities .....	585.8	524.9	- 60.9
Post .....	64.9	59.6	- 5.2
Telegraph .....	13.9	16.3	+ 2.4
Telephone .....	8.2	8.3	+ 0.1
Public service .....	87.0	84.2	- 2.7
General total .....	1,082.7	1,024.2	- 58.5

The groups which have withstood best the war storm are the taxes on incomes and on wealth, and the public services products. The taxes on commodities lost heavily, and the shrinkage was highest in Customs duties. Out of the 59.7 million lire decrease, 25.3 are due to the reduction of wheat duties. Here is seen one of the gravest defects of protective duties, which, in war times, are to be reduced or give decreasing results as the international trade is shattered.

## 32.

## CONGESTION AT GENOA

Now that the great ports of Hamburg, Bremen, Antwerp, Trieste, and Fiume are practically closed to traffic, the Italian port of Genoa has gained a position of unprecedented importance as an *entrepôt*. Before the war Genoa was the principal port for the North of Italy, but its imports for other countries were comparatively small. Just enough cotton was imported for the Italian mills, but practically none for the mills of other countries. According to the *Neue Zürcher Zeitung*, however, this trade has now swelled enormously, so that out of 483,100 bales of cotton lying at the port on March 5<sup>th</sup> well over two-thirds was destined for foreign consumption – that is to say, mainly for Austria and Germany. The

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32. April 3, 1915, p. 669. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because the treatment of the argument bears strong similarities with two of Einaudi's articles in *Il Corriere della Sera* (March, 15 and 18) entitled respectively: "La crisi odierna del porto di Genova" and "Le cause dell'ingombro del porto di Genova".

cotton imports of Genoa have increased as indicated below over the level of a year ago:

	1913-14	1914-15
	Bales	Bales
December.....	94,730	196,348
January .....	87,712	248,518
February.....	63,498	228,232
Total .....	245,940	673,098

Speculation is said to be very active, and cotton is sold at very high prices. Trade, however, is greatly handicapped by inadequate railway and harbour facilities. Goods wagons are being kept back in Austria and Germany, while there is a great scarcity of tarpaulin covers, some 6,000 of which had to be withdrawn from the railways after the recent earthquake to provide shelter for the inhabitants of Avezzano and district. The absence of tarpaulins has been the more severely felt owing to abnormal rainfall. There is also a serious congestion of traffic in the sidings at the port, and at the frontier stations of Chiasso, Luino, and Ala, leading to the Gotthard, Simplon, and Brenner lines through Switzerland and Austria. The Customs officials cannot cope with the work thrust upon them by numerous Ministerial orders, embargoes, and regulations against the export of contraband. There has been a breakdown of the electric power in the Givio tunnel. At Genoa itself there is a lack of electric cranes, of mechanical contrivances for loading, and automatic weighing machines, while the organisation of labour is stated to be very defective. It appears that recently 5,000 bales of cotton, worth £ 40,000, were destroyed by incendiaries.

### 33.

#### ITALIAN BANKING AND EXCHANGES

*From an Italian Correspondent*

The report read by Signor Stringher, director-general of the Bank of Italy, at the shareholders' meeting on March 31, 1915, covers one of the

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33. April 17, 1915, pp. 750-751. The article, unsigned, was published in the first section of the newspaper. It is a comment on the Annual Report of the Banca d'Italia. Its attribution to Luigi Einaudi, who regularly wrote this comment in *The Economist* in the years following, is probable because the treatment of the argument bears strong similarities with Einaudi's articles in *Il Corriere della Sera*.

most momentous years in the history of the bank. As Signor Stringher says, the war compelled the Government to authorise the banks of issue – of which, as is well known, there are three in Italy, the Bank of Italy, the Bank of Naples, and the Bank of Sicily – to exceed the statutory limits to the issue of notes. By legislative Decrees of August 4<sup>th</sup> and 13<sup>th</sup> and November 23, 1914, these limits were on each occasion enlarged by a third, or from 660 to 1,320 millions lire for the Bank of Italy, from 200 to 400 for the Bank of Naples, from 48 to 96 for the Bank of Sicily. These amounts were to be covered by a metallic reserve of 40 per cent. Further, by a Decree of September 19, 1914, the limit of the advances (*anticipazione*) which the banks of issue must make to the State Exchequer were raised from 115 to 230 million lire for the Bank of Italy, from 30 to 60 for the Bank of Naples, from 10 to 20 for the Bank of Sicily. The banks are authorised to issue corresponding quantities of notes for the purpose of advancing them to the State, these issues to be covered by a reserve of a third.

By a Decree of August 18, 1914, the banks were obliged to advance to the State a sum now exceeding 300 millions lire for advances to savings banks and *Monti di pietà* (public pawn offices). These notes were to be guaranteed by deposit of Government stock, or guaranteed by State stocks or land mortgage credit debentures. A new legislative Decree of November 23, 1914, ordered that, of the said 300 millions, 50 were to be advanced to railway builders. Decrees of September 22<sup>nd</sup> and November 23, 1914, enacted that the banks of issue must issue 100 million lire for advances to provinces and municipalities for the execution of public works, in relief to unemployed, and 400 million lire for advances to *Cassa Depositi e Prestiti* (a State Bank which administers the postal saving banks and various other public credit institutes). These issues to be guaranteed by credit certificates against the borrowers.

When we add that the Exchequer was authorised to increase its own State notes (ten and five lire) from 525 to 700 millions, and to issue a wholly new series of one and two lire notes (*Buoni di Cassa*), we get a total *authorised* increase in the issue of notes of various denominations of 1,803 million lire for the banks, plus some 200 millions for the direct State issue. The effect has proved less perilous than might have been anticipated. The State has, indeed, increased the issue of small notes of five and ten lire from 525 to 700 millions; but the one and two lire notes were printed, but *not* issued, as the panic among small people soon subsided, and the silver one and two lire pieces returned to circulations.

The banks contrived to avoid realising the authorisation of the Decrees. The total note issue, 2,199 million lire at June 30, 1914, including



normal circulation, covered by 40 per cent. reserve and the additional circulation converted in full by gold, had by December 31, 1914, risen only to 2,936 million lire – *i.e.*, an increase of but 737 million lire, well below the authorised 1,862 millions. The prudence with which the directors of our three banks of issue availed themselves of the authorisation to print new notes is highly creditable. The increase of 737 million lire in the note issue was, in substance, made wholly for the purpose of making advances to the State Exchequer. Discounts of private bills and advances rose, indeed; but debts at sight and deposits rose also by a corresponding sum, so that the three banks were enabled to increase by these means their discounts and advances (in million lire):

	June 30, 1914	Dec. 31, 1914	Increase
Discounts .....	669	995	326
Advances .....	140	209	69
Total .....	809	1,204	395
Debts at sight .....	207	320	113
Deposits .....	100	391	291
Total .....	307	711	404

The fact was that the public took alarm in August and the following months, and, as far as the moratorium for banking deposits permitted, decreased their deposits in the ordinary banks and transferred them to the banks of issue, although the interest allowed by banks of issue was only 2 per cent. and afterwards 1.50 per cent. – *i.e.*, below that allowed by other banks. The reason of the transfer was that the issue banks' deposits were not liable to the moratorium, and continued even after August 1<sup>st</sup> to be callable at sight.

The foreign exchanges fluctuated considerably, especially in August, and but for the prudence of Signor Stringher and his colleagues, who refrained from the exorbitant overissues urged in various quarters, the note depreciation would certainly have been greater. From June the fluctuations of the rate of exchange on Paris have been as follows:

	Mean	Maximum	Minimum
June .....	100.33	100.45	100.23
July .....	100.93	106.75	100.32
August .....	Not legally known		
September .....	105.44	106.81	104.19
October .....	103.85	104.87	102.83
November .....	104.87	105.35	103.73
December .....	103.31	105.20	102.34

And in the first quarter of 1915 the mean rate of the exchange was as follows:

	January	February	March
Paris .....	103.91	106.75	109.56
London .....	26.21	26.89	27.83
New York .....	5.38	5.58	5.79
Berlin .....	117.26	117.96	118.83
Wien .....	92.12	91.51	88.60

Italy is thus a loser against Paris, London, and New York, and a gainer toward Berlin and Vienna.

The dislocation of international trade seems to be the foremost cause of the dislocation of exchanges. The last five months of 1914 compare thus with the first seven (in million lire):

	January-July	August-December
Imports .....	2,097.2	784.8
Exports .....	1,464.6	753.2
Excess of imports .....	632.6	31.6

The international balance of payments was readjusted in the first seven months by the sums sent by emigrants and those spent by foreigners in Italy. In the last five months these sources of Italian credit against foreign bonds failed totally, and as our invisible imports (interest on debt held in foreign lands, freights, &c.) remained stationary, or even increased, the excess of payments to be made raised the exchanges against us in France, England (coal imports), and the United States (cereals and other imports). In the first quarter of 1915 the rate of exchanges was further raised against us, because of the high payments which Italy had to make for goods (especially cereals, horses, and various metals) imported from foreign lands (in million lire):

	Imports		Exports	
	1914	1915	1914	1915
January .....	260.9	169.3	179.3	180.1
February .....	297.6	245.8	197.8	192.4

The exports have suffered less than the imports; but the import figures remain at a higher level than exports.

Trade with the principal foreign countries was as follows in the first two months of the year (000's omitted, in lire). (See table at p. 104)

The rise in imports from Argentina and the United States is due to cereal imports. The exports to the belligerent countries have increased more or less. A glance at the detailed tables shows that increases were principally in cotton yarn and tissues, in vegetables, oranges and lemons, motor-cars,

&c. The cotton and motor-car industries have been gainers from the war, while silk has suffered, though somewhat less in the last months.

	Imports		Exports	
	First Two Months of		First Two Months of	
	1914	1915	1914	1915
Austria Hungary.....	36,665	15,879	36,610	38,160
France .....	45,991	19,324	43,220	47,583
Germany .....	92,746	51,435	45,591	74,296
Great Britain.....	86,293	59,051	47,986	53,886
Switzerland .....	11,210	9,318	39,645	34,223
Argentina .....	8,091	22,769	25,300	12,996
United States .....	82,819	140,313	37,426	41,077

### 34.

#### THE ITALIAN WAR LOAN

*To the Editor of the Economist*

Sir, — The results of the public loan issued in Italy by the Government towards defraying the war expenses have just been telegraphed. The amount is 1,117.5 million lire, including the subscriptions of the banks. This does not include sums subscribed by Italians living in the colonies and abroad, for which the subscription lists will not be closed till August 31<sup>st</sup>.

If a comparison is made with the huge war loans of Great Britain and of Germany, our 1,117½ millions may seem a small figure; but when one takes into account all the circumstances of the case, the success must be pronounced a genuine one. Our wealth is smaller than yours; your national annual income is valued at £ 2,000 to £ 2,200 millions; ours can be valued at only £ 500 to £ 600 millions (12,000 to 15,000 million lire); our mean income per head is valued by some statisticians at £ 16; yours at £ 48. That in a country like this the second

34. July 31, 1915, pp. 181-182. The article, signed, was published in the section: "Letters to the Editor".



war loan has reached the sum of 1,117½ million lire, after the first January war loan of 1,000 millions, is a proof of our economic growth, and of the popularity of the present and last war of independence. In the year 1866 our economic structure was so weak that the Government thought it necessary to have recourse to a forced loan (*prestito forzato*) of 350 million lire. To-day the Government has raised in a year voluntarily a sum sevenfold greater! To understand the nature of the success, it is useful to note that the subscriptions are real, genuine, not sham subscriptions. The 1,117½ million lire, subscribed have been paid in hard money, truly saved, without Darlehenkassen and similar fictitious machines for swelling figures. In the January first war loan the totality of the public subscriptions was paid before maturing of the monthly instalments. This will happen in the present loan.

The truth is that the present war is truly popular; its necessity is more and more keenly felt by the population. Our people rejoice in the manly conduct of our brave troops, and are determined to make all efforts towards the goal of the union of Italian lands under the Austrian yoke to the Kingdom of Italy. For the sake of attaining so great an end, I am sure the Italian people will give the last penny. — Yours faithfully,

LUIGI EINAUDI

La Riforma Sociale, Turin, July 22<sup>nd</sup>, 1915

### 35.

#### CONDITIONS IN ITALY

The Italian soldiers are, already experiencing some of the horrors of winter warfare, writes a North Italian correspondent on August 22<sup>nd</sup>, since much of their fighting is done at 2,500-3,000 metres above the sea. One of the more serious problems of the present moment is the dearth of wool on our market. A wide appeal is being daily made by our newspapers for socks and other knitted garments for our soldiers,

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35. August 28, 1915, p. 324. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because the treatment of the argument bears some similarities with Einaudi's article in *Il Corriere della sera* (August 13, 1915) entitled: "Il problema della lana e le importazioni dall'Inghilterra".

but, for a large number of people, the wool has risen to an almost prohibitive price. Good Borgosesia wool, which is the best quality for knitting, has gone up to 17-18 per kilo, and is still going up every day. Among the chief causes of this increase is, of course, foremost the suppression (for the world market) of important manufacturing centres, like Antwerp and the North of France, but to this must be added the peculiar conditions of production. At ordinary times our manufacturers find more convenient getting from abroad tops rather than natural (raw) wool, at least, for half of the total amount. Carded thread is needed for the fabrication of grey-green cloth for the army. Lacking this, one might use tops. We have in Italy 12,000 looms capable of producing per month from 5 to 6 million metres cloth, but our carding factories are not sufficient to supply the necessary quantity in carded wool, nor can the gap be filled up with tops, as we can only produce from 7 to 8 million quintals of the 15 needed. During the first five months of 1914 the total amount imported from France, Germany, and Belgium was 16,998 quintals of tops; in 1915 (corresponding period) not one single kilo was imported from those three countries. Great Britain, who in 1914 had sent over 6,178 quintals, sent in 1915 but 885 quintals. Wine prospects are poor. The vines had had a fine blooming, but later, owing partly to the lack of sufficient attendance, due to the call to arms of peasants, the new grapes withered and disappeared. The hay crop has been very good, owing to the frequent rains. Wheat has been less abundant than one was led to expect. Notwithstanding the larger cultivation (300,000 hectares more were sown), the product has been valued under the normal, *i.e.*, 47,800,000 against 49,273,000, as has been the average in the last six years. The Office of Agricultural Statistics states that the reserves from last year's crop can be valued to 10 million quintals. If we deduce the 6½ millions necessary to the sowing, the country can count for the present year on 50 million quintals. As the necessary amount was fixed at 52,7 millions (they will barely suffice, given the number of returning emigrants), importation must provide the rest, but it will need to be no larger than the average one from 1908-9 to 1912-13, *i.e.*, 15,261,440 quintals yearly. Corn has done well up to now, but will almost certainly suffer if this rainy weather continues.

## 36.

## THE COST OF THE WAR IN ITALY

*From an Italian Correspondent*

Turin, November 20

As far as can be argued from the Treasury returns, the latest of which, up to September 30<sup>th</sup>, was published some days ago, war expenditure in Italy may be summarised as follows (in lire).

(000's omitted)

	War Office		Admiralty	
	Total 1915 Expenditure	Excess of 1915 Expenditure over 1913	Total 1915 Expenditure	Excess of 1915 Expenditure over 1913
	Lire	Lire	Lire	Lire
June, 1915.....	396,654	335,464	67,171	30,266
July, 1915.....	460,174	380,937	50,392	32,468
August, 1915.....	405,389	379,748	80,334	54,316
September, 1915.....	439,035	386,849	53,005	28,222

War expenditure in the strict sense, that is to say, the excess of the expenditure in the war months of 1915 over the corresponding months of the last complete year of peace, may be estimated at about 420 million lire monthly. The daily figure works out at 1½ million lire, or £ 560,000 sterling (at 25 lire to the £). It must, however, be added that this is the *current* daily expenditure from June 1<sup>st</sup> up to September 30<sup>th</sup> only. In the last two months, October and November, these figures may have been exceeded. Other items of war expenditure are charged to various other departments, such as the Home Office and the Colonial Office, and a great sum was spent previous to the declaration of war against Austria.

The sum total of the Budget expenditure in the financial year from July 1, 1914, to June 30, 1915, and of the months of July, August, and September, 1915, was as follows:

36. November 27, 1915, pp. 892-893. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable because of the wording "From an Italian Correspondent" and "Turin, November 20".



Expenditure in the financial year	Lire	Lire
1914-15 .....	5,630,626,417	
Do 1913-14 .....	3,150,101,059	
Increase .....	2,480,525,358	2,480,525,358
Expenditure in July, August and September, 1915 .....	2,088,591,261	
Do 1914 .....	904,739,862	
Increase .....	1,183,851,398	1,183,851,398
Total increase .....		3,664,376,756

Of this total increase of 3,664 million lire, one may say that some 3,500 million lire are the effect of the war, under the head either of war preparations from August, 1914, to May, 1915 (about 2,000 million lire), or of the conduct of the war from June to September, 1915. This is, indeed, a truly stupendous figure for our country. If we add to this total *increase* other ordinary and extraordinary expenditure, civil and military, including also expenditure on capital account, such as railway building or reimbursements to post-office banks depositors and various other items, we get a total *issue* from the Exchequer in the 15 months between July 1, 1914, and September 30, 1915, of 7,587 million lire; that is, about 300 millions sterling (not allowing for the present rate of exchange). This is the heaviest financial charge borne in Italian history. How it is being met may be judged from the following table:

	Lire
Taxes and other effective income .....	3,108,072,105
Decrease in the cash balance of the Public Exchequer .....	67,151,072
Exchequer cheques running .....	127,849,096
Loans and debts at home .....	1,946,790,423
	Lire
For railway building .....	26,119,876
Exchequer ordinary bills .....	78,462,000
National War Loans .....	1,842,208,546
	1,946,790,423
External loans: Special Treasury Bills .....	439,568,356
Note issues .....	1,902,500,000
	7,586,931,052

The only dubious item in this table is the figure of the new note issue. I must add that in the first period of the war it would have been impossible to meet the growing expenses without recurring to note issues. But whereas in the 12 months from July 1, 1914, to June 30, 1915, the monthly average of the note issue was 129 million lire, the average for the three last months from July 1 to September 30, 1915, decreased to 118 million lire. But for

the highly praiseworthy resistance of the Treasury Minister, Signor Carcano, and of the Director-General of the Bank of Italy, Signor Stringher, the note issue would have been increased well above the present level, and the foreign exchanges, which are already high, would have jumped still higher.

The financial policy of Italy at the present moment may be said to turn upon the necessity of new loans, economy, and new taxes. The Government is alive to the urgent character of these problems. As to new loans, I think that the time will soon come when an appeal will be made for a new national loan; and when such appeal is made subscribers will come in even larger numbers than in July last; for they know:

1) That the Government is bent on the utmost economy. A Decree of November 18<sup>th</sup> has suspended *all* new appointments of public servants, has ordained that the number of non-commissioned or extraordinary public servants is to be reduced by one-fifth from July 1, 1916, by another fifth part from July 1, 1917; has reduced from 10 to 20 per cent. office expenditure (stationery, lighting, &c.), fees, and other extra remuneration of public employees.

2) That the Government is devoting the proceeds of new taxes as they are levied to the interest and amortisation service of new debts. I think that the various new taxes imposed after January 1, 1915, will yield about 120 million lire per annum, and new taxes are in store which will increase, before the end of the year, the said 120 millions to about 300 million lire. This is an honest and straightforward programme, which is reassuring to the State creditors. And the Italian people pay the new taxes without murmuring, as they know that the burden is necessary to out unity.

### 37.

#### ITALIAN WAR TAXATION

The Italian Chamber has voted by 313 votes to 46 the Government's demand for funds covering the expenses for six months. An Italian correspondent, writing on December 12<sup>th</sup>, has sent us the following particulars of the

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37. December 25, 1915, pp. 1054-1055. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because the treatment of the argument bears strong similarities with two of Einaudi's articles in *Il Corriere della Sera* (September 22 and November 27, 1915) entitled respectively: "I problemi tecnici dei nuovi provvedimenti tributari. La necessità di nuovi tributi" e "Il congegno dell'imposta sui profitti di guerra".

new taxation imposed in accordance with the Royal decree of October 15, 1914; the Bill passed in December, 1914, and the Legislative decrees of September 15<sup>th</sup>, October 12<sup>th</sup>, and November 21<sup>st</sup> of the current year. These fall under two heads. First, levies that may become permanent, and, second, taxes of a provisional character. Under this first head the new taxation on income and on business transaction, estimated to produce 100 million lire; military tax, 15 million lire; tax on managers of limited liability companies, 3 million lire; the "war farthing tax", 58 million lire; modifications in taxes on business transactions, transfers, &c., 43 million lire; modifications of the registration tax, 4 million lire. Estimated total under A, 223 million lire:

B) New contributions on postal services .....	11	
C) " " on "superfluos" commodities		
Increase on tobacco.....	20	
" on spirits .....	7	
" on beer.....	4	
" on petrol (benzine) and mineral oils.....	6	
D) New taxation on primary necessities		37
Increase on salt.....	20	
" on matches .....	3.5	
" on sugar.....	10	
" on bicycles.....	2.4	
		36

The total estimated yield of taxes under (I), *i.e.*, taxes that may become permanent, is thus 307 million lire. The second-class consists of levies provisional in character:

	Million Lire
Tax on war profits .....	54
Abolition of privileges in regard to registra- tion taxes .....	27
Import embargoes, &c. ....	14
Total .....	95

The gross total is thus 402 million lire, of which 307 millions may be regarded as permanent resources to meet the permanent expenditure to be faced after the war, and since this 307 millions has been obtained to the extent of nine-tenths by taxes on luxuries, and so almost without the imposition on the taxpayer of any sensible burden, there is a considerable margin left for fresh taxation. Nor does it exhaust the expected revenue. M. Carcano estimates that suspension of new appointments and reduction of office expenditure will produce 40 million lire. Since the cost of the war up to October 31<sup>st</sup> was 4,000 million lire in round figures, even if the



monthly average has now risen to 800 million lire, the total to the end of February will be some 7,000 million lire. The revenue from new taxation (350 million lire) equals the interest on seven milliards of public debt at 5 per cent., *i.e.*, the new taxes have so far covered interest on public debt up to the end of February. A point in which reform is much needed, and the opportunity favourable, is the assessment of income to taxation.

## 38.

### EIGHTEEN MONTHS OF WAR PRICES ON THE ITALIAN STOCK EXCHANGES

*From a Correspondent*

North Italy, January 11

Although public attention is focussed on the new war loan, which, with interest at 5 per cent. and issued at 97.50, gives a net yield of 5.20 per cent., the market is by no means flat. The bourses, indeed, are closed, but at private meetings stocks and shares are freely dealt in. For several months past dealings have been very active, and prices keep up wonderfully well. Some sample quotations may be given. The first table refers to State issues:

	July 31, 1914	Dec. 31, 1914	Dec. 31 1915	Jan. 10, 1916
	Lire	Lire	Lire	Lire
3½ per Cent. Rente.....	93.35	86.25	84.45	82.20 ex 1.25
Treasury Bonds, due 1917.....	100	97½	99	99.10
Do 1918.....	100	96½	92¾	97.90
Do 1919.....	—	95¾	96.40	96.60
War Loans, 4½% — Jan., 1915.....	—	—	91.00	91.50
Do July, 1915.....	—	—	94.15	94.30

The fall of the 3½ per cent. Rente was perhaps natural, as the rate of capitalisation in the market was raised by the issue of the two 4.50 per cent. war loans and of the new 5 per cent. At the present price the 3.50 per cent. Rente yield about 4.25 per cent., which is explained by the very good *classe-*

38. January 22, 1916, p. 130. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is uncertain. The treatment of the argument bears some similarities with Einaudi's article in *Il Corriere della Sera* (January, 7 1916) entitled "Il nuovo decreto per il prestito al 5%".

ment of the 8 billions lire of nominal capital, of which over 4 billions are inscribed to the name of the creditors, and the rest is in possession of public saving institutions, and of several hundred thousands of bearers. The  $4\frac{1}{2}$  per cent. war loans are below the issue price, owing to the pressure of the new 5 per cent. at 97.50; but the first (January) loan can be converted in the new 5 per cent. with the payment of 5 lire, and the second (July) also with a payment of 2.50 lire. The principal banking shares were priced as follows:

	July 31, 1914	Dec. 31, 1914	Dec. 31, 1915	Jan. 10, 1916
	Lire	Lire	Lire	Lire
Bank of Italy .....	1,276	1,216	1,300	1,317
Commercial Bank .....	678	485	626	643
Italian Credit Bank .....	504	376	518	520
Bank of Rome .....	88	54	35	41

The recent rise of banking shares, after the first war slump, is very remarkable. The Bank of Italy shares are higher than on the days immediately preceding the war, which is easy to explain, owing to the large profits made by the banks of issue with an enlarged note circulation. Of the profits over 6 per cent. on the capital 50 per cent. will go, as usual, to the Treasury, and the remaining 50 per cent. will be severely hit by the new progressive excess profit tax. The Bank of Rome shares are low, owing to a capital reduction, which is, however, unconnected with the present war.

A group which has largely benefited by the war is that of sugar, navigation, iron and steel, motor-car companies. Here are a few specimen prices:

	July 31, 1914	Dec. 31, 1914	Dec. 31, 1915	Jan. 10, 1916
	Lire	Lire	Lire	Lire
Italian General Navigation Co. ....	382	358	416	424
Ligurian - Lombard Sugar Refinery. ....	288	288	314	316
Eridania (sugar and miscellaneous company)				
Terni (armaments) .....	460	492	497	505
Ansaldo (ditto) .....	1,110	910	1,180	1,200
Savona (iron and steel) .....	211	173	231	232
Elba (ditto) .....	139	125	211	232
Ferriere italiane (ditto) .....	200	184	253	259
Metallurgica (ditto) .....	91	76	153	168
Fiat (motor car) .....	101	92	131	135
Itala (ditto) .....	90	115	340	340
Spa (ditto) .....	40	90	64	64
	25	30	60	56

A most remarkable rise happened in the Fiat shares. The Fiat Company, which is directed by men of conspicuous ability, are the world-wide producers of motor-cars. They converted themselves into manufacturers of aircraft, war munitions, &c., and provide the Italian Government, in addition to motor-cars, with many other necessities for the conduct of the war.

I will quote also some other figures, in which the effects of the war were indifferently felt:

	July 31, 1914	Dec. 31, 1914	Dec. 31, 1915	Jan. 10, 1916
	Lire	Lire	Lire	Lire
Beni Stabili.....	282	256	249	250
Imprese Fondiarie .....	87	70	63	—
Meridional of Italy Railways.....	483	430	432	432
Union of Genoese Tramways .....	698	640	630	630
Genoese Electric Co. ....	390	355	330	330
Aqueduct of the Pouille.....	310	280	328	—

The Beni Stabili and the Imprese Fondiarie are two house-building and house-holding companies in Rome. The Meridional of Italy Railways is to-day, after the nationalisation of railways, a holding company; the two Genoese companies are representatives of public utility enterprises; the Acqueduct of the Pouille is a non-dividend-paying company, which will have a future when the great acqueduct in the Pouille region has been completed. All these companies' shares felt, in a greater or less degree, the pressure of the highest capitalisation rate. But it is easy to see from the quotation given above the market situation is to-day far healthier than when the war broke out. The Stock Exchange carry-over is notably diminished; and the Stock Exchanges could be reopened without any price disturbance.



## 39.

## ITALIAN CURRENCY, EXCHANGES, AND TRADE BALANCE

*From a Correspondent*

Turin, April 2

The report read by Signor Stringher, director-general of the Bank of Italy, to the ordinary annual shareholders' meeting is, as usual, very interesting, and a few figures may be extracted from it. The note issue since the European War is as follows (in million lire):

	Bank of Issue Notes		State Notes	Total
	Issued for the Benefit of Trade	Issued for the Benefit of the State		
July 31, 1914.....	2,265.1	—	499.1	2,764.2
December 31, 1914.....	2,201.1	734.9	657.2	3,593.2
May 31, 1915.....	2,476.2	1,296.2	697.5	4,469.9
December 31, 1915.....	1,898.6	2,069.5	1,082.1	5,050.2
February 29, 1916.....	1,666.8	2,167.4	1,096.5	4,930.7

Signor Stringher did not commit himself to any definite theory as to the cause of the rise of the foreign exchanges, which, from 25.31 lire to a pound sterling in July, 1914, have risen to over 30 and even 32 lire, as is shown in the table, which traces how the Italian exchange has depreciated during the war from its par values:

	Par of Exchange	End of July, 1914	End of Year, 1914	End of May, 1915	And of Year, 1915	April 7, 1916
Italian Lire.....	25.20 $\frac{1}{4}$	nom	25.87 $\frac{1}{2}$	27.75	31.45	31.47

But he did furnish some valuable facts, which may be useful in explaining the rise. Firstly, the actual rise in the sum issued, which, however, has been limited to the absolute necessities of the State, is inferior to that attained in most other belligerent States. Notes for trade purposes-viz., notes issued against bills and advances – increased up to May 31, 1915, the date of the war declaration against Austria, and was afterwards diminishing. This decrease was due to the decrease of the pre-war bills dis-

39. April 22, 1916, pp. 739-740. The article, unsigned, was published in the first section of the newspaper. Its attribution to Luigi Einaudi is probable because it is dated Turin.

counted by the ordinary banks. The pre-war bills are being regularly paid; and new bills are not forthcoming in the same measure, as cash payment methods are more usual than before the war. This means also that a part of the increase in the total issues, from 2,764.2 to 4,930.7 million lire, is not a real increase, but is due to a greater use of notes as against bills and other means of payment. A part of the new notes was also hoarded. Of the extent of hoarding an interesting proof was given in the fact that a great part of the subscriptions to the new 5 per cent. war loan – which, by the way, Signor Stringher announced will go up to 3,000 million lire, when the colonial and emigrants' subscriptions will be closed, a truly noteworthy achievement – were paid cash down, without diminishing the bankers' deposits in a corresponding measure. The Bank of Italy has received, for example, subscriptions to the new war loan for the sum of 900 million lire, of which the greater portion must have been paid cash down; but its deposits and other debts at sight diminished only from 718.7 to 618.5 million lire from December 31, 1915, to March 10, 1916. The experience of the other banks was much the same, so that one is obliged to draw the inference that a part of the subscriptions to the war loan was made in hoarded notes. Several hundred million lire must, therefore, be subtracted from the gross figure of 4,930.7 million lire to arrive at a true active circulating note issue.

Another point of great interest is the increase in the adverse balance of our foreign trade. These are the figures (in million lire) of the Italian foreign trade (goods, exclusive of bullion) for the last three years:

	1913	1914	1915	Inc. (+) or Dec. (–) in 1915	
				Against 1913	Against 1914
IMPORTS					
January-May.....	1,536.0	1,522.8	1,326.0	– 210.0	– 196.8
June-December.....	2,109.6	1,400.5	2,005.5	– 104.1	+ 605.0
	3,645.6	2,923.3	3,331.5	– 314.1	+ 408.2
EXPORTS					
January-May.....	990.1	1,040.1	1,085.3	+ 95.2	+ 45.2
June-December.....	1,521.5	1,170.3	1,131.1	– 390.4	– 39.2
	2,511.6	2,210.4	2,216.4	– 295.2	+ 6.0
Adverse balance.....	1,134.0	712.9	1,115.1	+ 402.2	– 18.9

The real deficit was, however, greater than it would appear from the above figures. The 1915 figures are calculated on the basis of the 1914

prices. They will be corrected in due time; but at the present they are hardly representative of the real facts. As in 1915, the prices have greatly increased, and as the import prices are c.i.f., while export prices are f.o.b., and our merchant marine is unable to provide for all our outward, as well as to all our homeward, freights, the conclusion is that the adverse balance will probably exceed 1,115 million lire. The previous deficits were compensated, to upward of 1,000 million lire, by the remittances of Italian emigrants and foreign visitors. These two sources had, in a great measure, vanished in 1915; so that Italy had to provide for an increasing mass of imports at increased prices with diminished resources. The problem was solved by foreign loans. The Bank of Italy alone has sold, apart from State payments for war munitions and other public foreign purchases, upward of 750 million lire of foreign exchanges to the trade during 1915. Italy cannot use, for the sake of regulating foreign exchanges, the French and British device of selling foreign securities, for in recent years we have repurchased our Italian securities which foreign investors had bought in the period from 1861 to 1890; and our foreign investments were very small indeed, and mostly of enemy securities, which are at present unsaleable. The only means of redressing the international balance of payment are 1) foreign loans, which should be forthcoming during the continuance of the war, and 2) restriction of consumption of foreign and internal goods. The rise of prices and the uncertainty of the future economic situation have done much to restrict consumption of luxuries, the imports of which are dwindling, but should be reduced to zero. Economy should be taught in Italy, as in England, to the classes which are profiting by the war.

## 40.

## ITALY.

## STOCK EXCHANGE VALUES

Turin, July 12

The quotations of public stocks (State Rentes and bonds, railway guaranteed debentures, and land mortgages or Credit Foncier bonds) on the

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40. July 22, 1916, pp. 147-148. This is part of a correspondence from Italy, unsigned, entitled: "Italy. War finance. The pope and the peace congress. Stock exchange values". Written by correspondents in Verona and Turin, it is published in the section: "Foreign and Colonial correspondence". Its attribution to Luigi Einaudi is probable because it is dated Turin.



Stock Exchanges and of other stocks and shares at the private meetings have undergone several interesting alterations during the past half-year.

The following table refers to State issues:

	July 31, 1914	Dec. 31, 1914	Jan. 10, 1916	July 10, 1916
3½% Rente.....	93.35	86.25	82.20	83.80
Treasury Bonds				
4%, due 1917 .....	100	97½	99.10	99.35
Do 1918 .....	100	96½	97.90	97.50
Do 1919 .....	—	95½	96.60	96.00
War Loans				
4½%, Jan., 1915 .....	—	—	91.50	90.40
Do July, 1915 .....	—	—	94.30	92.75
5%, Jan., 1915 .....	—	—	—	95.80

The recent 4½ per cent. War Loans have lost some points, owing to the competition of the last 5 per cent.; but the 3½ per cent. Rente has gained 1.60 per cent., and the short-dated Treasury bonds are firm. The Treasury is issuing Exchequer bills, six to 12 months, payable to bearer, at 3, 4¼, and 4½ per cent. interest, and Treasury bonds, three and five years, at 5 per cent. interest, following the example of the British and French Governments. The issue is unlimited, as the Treasury sells from day to day the bills at the counters of banks and other public offices. The success is remarkable, as in the first ten days from June 20<sup>th</sup> the Finance Minister, Signor Carcano, was able to announce to the Senate that the amount sold was upward of 500 million lire.

The principal banking shares were priced as follow:

	July 31, 1914	Dec. 31, 1914	Jan. 10, 1916	July 10, 1916
Bank of Italy.....	1,276	1,216	1,317	1,330
Commercial Bank.....	678	485	645	658
Italian Credit Bank.....	504	376	520	555
Bank of Rome.....	88	54	41	37
Italian Bank of Discount.....	—	—	[507]	490

The last-named bank is a new institution, of which the president is Senator Marconi, and which is the result of the fusion of two older banks (Società Bancaria Italiana and Società di Credito Provinciale). The price between brackets refers to February 12, 1916. The rise, though moderate, is continuing in most cases.

The rise was accentuated in the sugar, navigation, iron and steel, motor-car companies:

	July 31, 1914	Dec. 31, 1914	Jan. 10, 1916	July 10, 1916
Italian General Navigation Co.....	382	358	424	538
Ligurian - Lombard Sugar Refinery.....	288	288	316	323
Eridania (sugar and miscellaneous Co.).....	460	497	505	554
Terni (armaments).....	1,100	910	1,200	1,425
Ansaldo (armaments).....	211	173	232	338
Savona (iron and steel).....	139	125	232	338
Elba (iron and steel).....	200	184	259	298
Ferriere Italiane (iron and steel).....	91	76	168	217
Metallurgica (iron, steel, and copper).....	101	97	135	146
Fiat (motor car).....	90	115	340	480
Itala (motor car).....	40	90	64	80
Spa (motor car).....	29	30	56	85

This is the group most favoured by the war. The sensational rise of Fiat shares has given rise to much speculation at Turin. The movement was not checked by the tax on surplus profits, which is progressive, and runs upwards of 40 per cent.

The following are various other miscellaneous shares:

	July 31, 1914	Dec. 31, 1914	Jan. 10, 1916	July 10, 1916
HOUSE AND LAND				
Beni Stabili.....	282	256	250	252
Imprese Fondiarie.....	87	70	—	72
Beni rustici.....	135	120	—	140
EX-RAILWAYS				
Meridionals of Italy R.....	483	430	432	453
Mediterranean.....	212	—	—	197
ELECTRIC				
Union of Genoese Tramways.....	698	640	630	605
Genoese Electric Co. ....	390	355	330	325
Edison.....	436	400	—	547
Vizzola.....	776	—	—	802
TEXTILES				
Lanificio Rossi (wool).....	1,380	—	—	1,370
Cantoni (cotton).....	399	—	—	460
Tessuti Stampati (cotton printing).....	98	—	—	217

The textiles companies, which were overloaded with debts and overstocked with goods difficult to sell, have experienced a favourable time during the war, much in the same fashion as the Savona, Elba, and Ferriere iron and steel group. Generally, the joint-stock companies will face the dislocation of the return to peace with reserves much higher than those possessed at July 31, 1914.

#### 41.

### NEW TAXES IN ITALY

Italy, like Great Britain, is determined to provide a considerable portion of the cost of the war out of revenue, and a scheme of new or revised taxation, estimated to produce 100 million lire annually, was instituted last week by decree. Its most interesting feature is the institution, at a date to be fixed hereafter, of a Government monopoly of the sale of matches, which is defended on the ground that increased taxation has made the consumer pay a higher price for a worse article. The manufacturers will now sell only to the Government, and it will regulate the prices; but if prices are to be reduced, it is hard to see how the monopoly can be very remunerative. The export trade is unaffected. Another feature is the upward revision of the sliding scale tax on war profits, except as regards agricultural produce. This latter, it is said, is taxed already as much as it can bear; but one cannot help reflecting that the agricultural interest is very strong, and that even the agricultural labourers, through their unions, are a power in the land. More novel imposts are stamp taxes on consignments by railway, or by tramway, from one commune to another, and on boxes of securities or valuables deposited with a bank, which, it is pointed out, may easily be so transferred as to evade the death duties. The tax is adjusted to the value of the contents, and payable annually, and may be doubled if the deposit is made in the names of several persons and one of them dies. The tax on bills of exchange is revised, and that on alcoholic beverages is increased by 75 per cent. — which, it is said, will not raise the price of wine, owing to the

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41. September 9, 1916, p. 442. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because the treatment of the argument bears strong similarities with two of Einaudi's articles in *Il Corriere della Sera* (September 25 and October 6, 1916) entitled respectively: "Restrizioni dei consumi, imposte e azioni di governo" and "La limitazione dei profitti di guerra".



abundant vintage of 1916. Precautions, moreover, are taken against adulteration. The communes, too, are encouraged to make better provision for the service of their own loans by being permitted to increase their own indirect taxation, especially on wine, and are allowed to institute a special surtax on their direct taxpayers, ranging from 5 per cent. on a total payment in direct taxes of 10 to 25 francs to 30 per cent. on payments exceeding 2,000 francs. This is to be applied to poor relief during the war and immediately after its close. Dependents of soldiers are to be exempted if they are receiving assistance, and subscriptions to any relief fund are to be taken as a set-off against the tax. The scheme is cordially welcomed by the eminent economist and ex-Minister, Signor Luzzatti, and the fact that its introduction is practicable is a satisfactory indication of the soundness of Italian finance.

## 42.

## LIMITATION OF DIVIDENDS IN ITALY

An interesting experiment has been made in Italy – writes a Turin correspondent – in the compulsory limitation of dividends distributed to shareholders and partners in joint-stock companies, limited companies, and other trade societies. A decree of February 7, 1916, put a limit of 8 per cent. per annum of the paid-up capital on the dividend which companies and trade societies could distribute among their shareholders and partners until further notice. The 8 per cent. dividend could be exceeded only in the case of companies which in the last two peace years had distributed a higher dividend; but in this case the dividend could not be higher than the mean peace dividend. The aim of the decree was to increase compulsorily the reserves of joint stock and other industrial and commercial companies, so that, at the return of peace, they might be able to meet the problems that will then arise. A slight relaxation in the interpretation of the decree was made when the Minister of Trade consented that the tied-up profits could be used for increasing the paid-up capital. Some companies have distributed among the shareholders a bonus in wholly paid

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42. September 16, 1916, p. 481. The article, unsigned, was published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because of the wording "writes a Turin correspondent".

shares, the payment being made with the profits exceeding the statutory 8 per cent. But a recent startling case of evasion of the decree has attracted the attention of public opinion. The Società di Navigazione Alta Italia (North Italian Shipping Company), domiciled in Turin, which perhaps was the shipping company which had benefited most by the war (the profits for 1915 were 15 million lire on a capital of  $3\frac{1}{2}$  millions, and it had already distributed, before the decree of February 7<sup>th</sup>, an interim dividend of 40 per cent.), finding itself thwarted in the distribution of its profits, had recourse to a most ingenious device. The shareholders' meeting dissolved the company, and put it into liquidation. The aim was to sell the ships and other assets of the company, and distribute the proceeds, and, with them, the big profits earned. The resolution led to much talk in business circles, and to violent denunciations in the daily Press. The Government felt obliged to intervene. A new Royal decree of September 3, 1916, put the companies which, by means of dissolution or of other expedients, seek to elude the statutory limitation of dividends, under an official receiver. The receiver will put the case before the Court; and the Court, if the dissolution is *in fraude legis*, will declare it void. The directors in charge at the moment of the dissolution, and those who were in charge for the 18 months previous to dissolution, will be personally and jointly responsible for the payment of the income and excess-profits tax due by the company. There the matter stands for the present. The attempt at evasion of the decree has been repressed, but the necessity of a more equitable formulation of the law is keenly felt in commercial and industrial circles. The business world feels also – and the recent stock exchange quotations reflect this feeling – that an authoritative assurance is needed that the profits put to reserve will not in future be absorbed by retrospective taxation. Business men are willing to pay the income and excess profits tax, but desire that the amount shall be known and certain, so that the remainder of their profits can be put to some use. The past Minister of Trade, Signor Cavasola, had given public assurance that the *sole* intention of the Government, when they issued the decree for the dividend limitation, was to benefit companies by increasing their reserves. But a section of the public Press is every day clamouring for a complete confiscation of the excess profits, and the clamour, though raised only in the extremist or socialist newspapers, frightens the companies and business men. It would be in the public interest if some means could be devised to give security to industry, for nothing checks enterprise so effectively as uncertainty concerning fiscal measures.

43.

ITALY

THE LIMITATION OF DIVIDENDS AND TAXATION OF WAR PROFITS

*From our Correspondent*

Turin, November 15

I have already describe the legislation for the limitation of dividends (decrees of February 7 and September 3, 1916). Since I wrote the matter has become somewhat involved by new issues. A section of the Press initiated a campaign against the "war profiteers", proposing that the extraordinary reserve of war profits should be *wholly* confiscated by taxation at 100 per cent. The decree of February 7<sup>th</sup> stated that the limitation of dividends was imposed in the interest of joint stock and other companies to ensure for them the financial means for the after-war crisis. The Socialist papers urged that no one should grow richer by the war, and that, as all excess profits were made at the expense of the State, they should revert to the State. The campaign was highly disturbing, as all companies which had made profits which they could not distribute to shareholders were left in the dark about the future. They could not say whether the reserves should be in cash or invested in buildings, machinery, structures, and implements for the production of munitions of war. Some directorates increased the share capital, and without distributing a dividend in cash gave to the shareholders a bonus in fully paid shares. Against this entirely legitimate proceeding, by which the company retained the profits and could invest the same in the interest of the production was raised a great outcry, as the distribution of a share bonus was considered equivalent to the distribution of a cash dividend. The industrial world was frightened, and expected new legislative regulations. Two new decrees were published to-day to regulate the matter. Firstly, the taxation of the war profits was raised. The rates of the taxation are at present as follows:

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43. November 25, 1916, p. 1000. This is part of a correspondence from Italy, unsigned, entitled: "Italy. The Limitation of Dividends and Taxation of War Profits. War Pensions. Crops". Written by correspondents in Verona and Turin, it is published in the section: "Notes on Business and Finance". Its attribution to Luigi Einaudi is probable because it is dated Turin.



	For the War Profit Between Aug. 1, 1914, and Dec. 31, 1915 %	Produced Between Jan. 1, 1916, and June 30, 1918 %
On the section of the profit higher than 8 per cent. up to 10 per cent. upon the capital invested .	12	20
On the section between 10 and 15 per cent. upon the same in- vested capital.....	18	30
On the section between 15 and 20 per cent. ....	24	40
On the section of the profits high- er than 20 per cent. ....	35	60

In addition, the income-tax was raised to 16 per cent. on the *whole* profits; so that on the first section the taxation is raised to 26 per cent. of the war profits.

After paying the war profits tax the profits can be distributed to shareholders, in accordance with the decree of February 7<sup>th</sup>, only up to 8 per cent. of the paid capital (or the mean of the best peace dividends) for the old companies, and up to 10 per cent. of the paid capital for the new companies, viz., companies born after the war.

A third part will be *compulsorily* invested in public funds (Italian Rentes, war loans, Treasury bonds, and Exchequer bills). Two-thirds will be left to the discretion of the directorates. The directors may put the two-thirds to special reserve, and in that case they may invest the same as they please in public and private stocks, buildings, machinery, goods in stock, &c. The only limitation is that they cannot distribute the same. They *can* also increase the paid capital of the company, distributing to shareholders a corresponding bonus in wholly paid shares. They cannot, however, convert the two-thirds of reserved profits in new paid capital if they do not prove, to the satisfaction of the civil tribunal (the local judicial court), that they have invested the corresponding sum in the improvement of their industrial enterprises (new machinery, new buildings, or amplification of existing buildings). Up to the end of the war, however, only the holdings corresponding to sums effectively paid by shareholders can obtain dividends up to 8 or 10 per cent. as above said. The bonus shares will remain without dividends. All these regulations and all limitation of dividends will cease at the end of the year following the year in which the peace is made. The previous decrees did not put a term to the dividends limitation. Perhaps the fixing of the date at which all limitation will cease will be greeted by

companies with most satisfaction. It is well to prevent the dissipation of profits; but an indefinite limitation threatened stagnation in the industrial world.

#### 44.

#### ITALY

#### THE FOREIGN EXCHANGES AND THE FOURTH WAR LOAN

*From our Correspondent*

Turin, February 20

One object of the new Italian War Loan in 5 per cent. Consols is to redress the unfavourable balance of international exchanges. The pound sterling at 34-35 lire, the French franc at 125 per cent., the Swiss franc at 145 per cent., the American dollar at 7.30 lire, the Argentine peso at 3.15 lire are eloquent of the need, and every effort is required to counteract the downward tendency of the value of the lira.

The best method of stabilising the currency is to decrease the circulation of paper; but in the present war the Treasury Ministers must consider themselves very fortunate if they succeed in restricting to small dimensions the increase of the paper issues. In this task Signor Carcano, aided by Signor Stringher, director-general of the Bank of Italy, has a good record. On a total of 16,060 million lire of new debts created between August 1, 1914, and December 31, 1916, the Bank and State notes debt reaches 3,272 million lire. The rest was raised by long-dated bonds and short-dated bonds and Exchequer bills, issued at home and abroad. As the pre-war paper issues reached 2,700 millions, the increase was noteworthy, but inferior to the increase of most other belligerents.

The exchange crisis was aggravated by the great decrease of remittances by Italian emigrants abroad to their families and by foreign travellers in Italy. In peace times the surplus of imports (1913, 3,645 million lire) over exports (1913, 2,511 million lire) was roughly balanced by these re-

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44. March 10, 1917, pp. 473-474. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because: a) it is dated Turin, b) the treatment of the argument bears strong similarities with Einaudi's articles in *Il Corriere della Sera* in the period February-March 1917.

mittances. In 1914 and the following years the balance of trade worked as follows (in million lire):

	1914	1915	1916 (First 10 Months)
Imports .....	2,923	4,703	4,652
Exports .....	2,210	2,533	1,911
Balance of imports.....	713	2,170	2,741

The advances of the British Government, and some small loans in the United States, have aided the balancing of our international indebtedness, but the difficulties of making the two ends meet are undoubtedly great.

The issue of our fourth loan has offered to the Government the opportunity of inviting the capitalist to give to the Treasury the foreign securities and the gold which they happen to possess. The scheme works as follows:

1. Certain foreign securities are accepted in payment of the new Consols; thus following the English and French policy. The quantity held in Italy is greatly inferior to that held in both these countries. Years ago Signor Stringher guessed at 24 million lire the sum received by Italians as yearly dividends of foreign securities in 1909. To-day the sum is indoubtably increased, and it is probable that the value of foreign securities held by Italians is well over 900 million lire, and perhaps reaches 1,000 million lire. Unfortunately, a notable part are Austrian, German, and Turkish bonds and shares, which are unsaleable. But there remains several hundred million lire of French, Spanish, Swiss, and especially Argentine, Uruguayan, and other South American securities, in which our former emigrants had invested their savings.

The list published by the Government specifies 19 sterling securities.

2. Gold is accepted in payment of the new Consols, at the fixed rate of 130 lire for every 100f, 32.70 lire for every pound sterling, and 6.70 lire for every U.S. dollar. There is not much gold privately held in Italy, but an effort is made to obtain it for the benefit of the gold reserves of the banks. The Minister of Finance has power to vary the rate of exchange at which gold is to be accepted in payment of the Consols.

3. The subscriber to the Consols can declare that it is his wish to obtain reimbursement of the gold given in payment of the new Consols after six months of the peace. In this case the gold is valued at his par value, viz., 100 lire for every 100f, 29.15 for every pound sterling, and 5.15 for every dollar; but the giver has the right, on presentation of a receipt, to obtain reimbursement, after the said six months, of the gold if he will pay the corresponding sum in paper currency.



4. Up to the present the banks of issue had not the right to receive gold deposits. They received, in current accounts, deposits in paper money at the interest of 1.50 per cent. per annum. In future the banks of issue will be authorised to receive gold in a special deposit account, with the yearly interest of  $3\frac{1}{2}$  per cent. It is hoped that the privately hoarded gold will be sent to the banks of issue, as the depositors are assured of their right of reimbursement of the pure gold at call. The experiment is, at any rate, well worth making.

## 45.

### ITALY

#### BANK OF ITALY REPORT – THE NEW LOAN – MONEY MARKET

*From our Correspondent*

Turin, April 4

The report of Signor Stringher, director-general of the Bank of Italy, to his shareholders contains much interesting matter. The most important financial operations of the Bank of Italy were, of course, for State account. After the War loan of January, 1916, which gave 2,100 millions lire of fresh money, comprising 300 millions subscribed by the banking corporations of issue, the bank issued in June and October Treasury bonds for 3 and 5 years, at 5 per cent., which produced 1,700 millions lire. The Treasury bills increased during the year by over 2,700 millions lire, and the paper notes increased also by 700 millions lire. The total banking and State note issue increased from 2,682 millions lire on July 20, 1914, to 6,330 millions lire on December 30, 1916.

The last War loan, in 5 per cent. Consols, issued at 90, had given, up to to-day, over 3,610 millions lire, entirely sold to the public, the banking corporation of issue having also disposed to the public of all the guaranteed sum. Of the said 3,610 millions, 2,490 millions were of fresh money, 104 millions of Exchequer bills, 427 millions of five-years 4 per cent. bonds, 396 millions of three and five years 5 per cent. bonds, and 79 millions

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45. April 14, 1917, p. 658. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because it is dated Turin.

of foreign State and railway securities (rentes and bonds). Foreign securities in possession of Italian capitalists were of not very great amount – Signor Stringher values them at a maximum figure of 800 millions lire, comprising the securities of enemy States. The subscription list for the War loan will remain open in the Erytrea and Benedir colonies and in the foreign countries oversea up to May 31. Up to date the foreign and colonial subscriptions have given 63 millions lire, which have to be added to the said 3,610 millions lire.

The gold held by the three banks of issue – Bank of Italy, Bank of Naples, and Bank of Sicily – and by the State Exchequer decreased between May, 1915, and February, 1917, by 490 millions lire.

An interesting feature of the money market in Italy has been the abundance of money for day-to-day loans, short bills, and Stock Exchange loans. Good commercial paper was scarce, and the discount operations of the Bank of Italy decreased in number from 1,880,301 in 1915 to 737,561 in 1916, and in amount from 3,296 to 1,817 millions lire. While the official bank rate was  $5\frac{1}{2}$  and afterwards 5 per cent., the Bank of Italy was obliged to diminish the rate to 4.50 per cent. in the 29.69 per cent., and to 4 per cent. in the 5.29 per cent. of the discount operations. Ordinary banks did go even lower, as the dominant rate in the free market was  $4\frac{1}{2}$  and 4 per cent. Signor Stringher explains the scarcity of good bills offered to the banks for discount by the decrease of the purely private transactions and the increase of the war transactions of the State, which pays cash in paper notes. The increased paper circulation floods the market and forces the rate for short bills to a low figure. The Bank of Italy has made a vigorous effort to popularise the use of cheques with a view to restricting the note issue. The cheques issued by the bank during the past year were 3,002,938 in number, for a sum of 16,920 millions lire, with an increase of 4,368 millions lire over the year 1915. The mean circulation of the bank cheques was 3,326 millions lire, with a mean life of seven days.

## 46.

## ITALY

## WAR DEBT – BANKING – SHIPPING

*From our Correspondent*

Turin, January 8

During the period from July, 1914, to October, 1917, the Italian market has absorbed readily a mass of State securities which in time of peace would have seemed impossible. Here is the summary of all issues during the said period (in millions of lire):

	July, 1914 to June, 1915	July, 1915, to June, 1916	July, 1916 to June, 1917	July to October, 1917
War Loans .....	1,000	3,628.8	3,985.5	2.3
Treasury Five-years Bonds, 4% .....	130.9	19.0	—	—
Do 5% .....	—	365.9	1,141.6	497.4
Do Three-years, 5% .....	—	102.2	270.0	236.3
Exchequer Bills from 3 to 12 months 3-5% .....	21.2	384.1	3,439.4	1,779.9

The war loans totalled 8,616.6 millions, the Treasury bonds of the various denominations 2,754.3, the Exchequer bills 5,604.6 million lire, with a general total of 16,975.5 million lire. To this there are to be added 7,531.6 million gold lire of foreign (British and American) loans, which were equivalent to 9,791.9 million paper lire. Meanwhile the increase in note issues was as follows:

Notes issued by issue banks and loaned to Government .....	2,665.9
State notes of 5 and 10 Lire directly issued by the Treasury .....	1,141.5
Million Lire .....	3,807.4

If we add to 16,975.5 millions of internal loans 9,791.9 millions of foreign loans and 3,807.4 of notes issued, we get at the grand total of 30,574.8 million lire, which represent the real new indebtedness of Italy during the European War.

46. January 26, 1918, p. 120. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



One of the greatest economic forces of Italy is its net of small saving and popular banks, which are diffused all over the country, and draw from local sources their funds, which are mainly devoted to financing agriculture, commerce, and industry. Some figures on the deposits of all species of banking institutions in Italy will be interesting (in million lire):

	July 30				
	1910	1914	1915	1916	1917
Banks of issue.....	99.3	100.0	649.6	504.7	412.7
Banks (ordinary).....	869.7	1,044.6	664.8	907.7	1,355.4
Popular banks.....	699.7	703.5	583.4	707.9	880.4
Co-operative banks.....	444.3	507.8	427.4	531.7	669.2
Savings banks.....	2,460.1	2,800.0	2,552.4	2,905.1	2,432.7
Postal savings fund.....	1,657.1	3,121.3	1,861.7	1,987.6	2,352.9
Savings foundations (Monti di Pietà).....	187.9	214.5	220.0	245.4	284.6
Rural banks.....	72.6	103.7	96.8	112.3	150.9
Total	6,490.7	7,595.4	7,056.1	7,902.4	9,538.8

Somewhat belated statistics have been recently published on, shipping movements in all the ports of Italy.

	1912	1913	1914	1915	1916
Steam vessels					
Number (000's omitted).....	164.2	169.3	171.8	123.6	91.4
Millions of tons of merchandise carried					
outwards and inwards.....	25.7	25.5	23.3	22.7	21.4
Passengers (in millions).....	2.9	3.2	2.8	2.0	1.5
Sailors, men, and officers (in millions)	4.4	4.6	4.6	3.1	2.1
Sailing vessels					
Number (000's omitted).....	189.0	184.8	173.1	138.9	116.1
Millions of tons of merchandise carried	6.3	6.3	5.8	4.9	3.7
Sailors, men, and officers (in millions)	0.9	0.9	0.8	0.6	0.5
Totals					
Number (000's omitted).....	353.3	354.1	344.9	262.5	207.6
Millions of tons of merchandise carried	32.0	31.8	29.1	27.6	25.1
Sailors, men, and officers (in millions)	5.3	5.5	5.4	3.7	2.6

## 47.

## ITALY

## BANK OF ITALY – PAPER ISSUES – FOREIGN TRADE AND FOREIGN EXCHANGES

*From our Correspondent*

Turin, March 29

Signor Stringher read yesterday to the shareholders of the Bank of Italy his usual report, which is probably the most important financial document of the year in our country. The balance-sheet closes in a way highly satisfactory to the shareholders and to the Government, which participates in the net profits of the banks of issue. The gross profits were 112,000,000 lire, against 79,100,000 lire in 1916; the expenses were 56,900,000 lire, against 39,200,000 lire. The net profits amounted to 55,100,000 lire (1916, 43,900,000 lire), which are reduced to 51,600,000 lire after various statutory deductions. Of the said sum 14,400,000 lire were allotted to shareholders (8 per cent. on the paid capital), 15,900,000 lire to the extraordinary reserve, and 21,000,000 lire to the State.

The high profits of the year 1917 were in part due to the increased issue of bank notes, which averaged 4,659 million lire during 1917, against 3,294 millions during 1916. But the increment was higher if we compare the end of 1917 with the end of 1915 and with July, 1914, and if we include the issues of the other two banks of issue and of the State notes. The figures work out as follow:

	Banking Issues		
	July 31, 1914	Dec. 31, 1916	Dec. 31, 1917
	Mill. Lire	Mill. Lire	Mill. Lire
Bank of Italy.....	1,730.1	3,876.7	6,539.2
Bank of Naples.....	428.2	945.7	1,575.4
Bank of Sicily.....	106.8	189.9	310.4
	2,265.1	5,012.3	8,425.0
State issues.....	499.1	1,317.3	1,748.8
Total.....	2,764.2	6,329.6	10,173.8

While the note issues increased the gold reserve decreased; the gold

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47. April 13, 1918, p. 602. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

held in the Bank of Italy vaults decreased from 1,118,200,000 lire at the end of 1914 to 835,900,000 lire at the end of 1917; the silver from 107,900,000 lire to 87,400,000 lire. The certificates of credit upon foreign places increased, however, from 23,600,000 lire to 447,700,000 lire. Italy was, previously to war, a paper currency country, and gold was not seen in circulation. It is gratifying to know that the Bank of Italy has only reduced its gold stock from 1,118,200,000 lire to 835,900,000 lire (-282,300,000 lire), while sending presumably over 400 millions gold to foreign allied places, and thus aiding the financing of the war.

The controversy as to the causes of the fall of the lira has subsided of late. It is acknowledged by all leading authorities, including Signor Stringher, that the principal cause has been the unavoidable increase of the paper issues. The price to be paid in Italian lire for the most important foreign exchanges were as follows (average of the month):

	100 French Francs	100 Swiss Francs	£1	\$1
July 31, 1914.....	101	100.80	25.40	5.25
December, 1915 .....	112.23	123.56	30.97	6.57
December, 1916 .....	117.20	135.18	32.59	6.85
June, 1917.....	124.41	143.47	33.95	7.13
December, 1917 .....	144.87	189.90	39.56	8.29
March, 1918 .....	151.25	198.90	41.10	8.63

If the fall of the lira is due mainly to the abundance of new paper money issued during the war, the prevalent impression is that its fluctuations - which were most violent between October, 1917, and February, 1918 - were due to speculation and irregularity in the balancing of international payments. Signor Stringher publishes a very interesting table on the Italian foreign trade, in which the 1917 figures were adjusted so as to correspond to increased prices of goods:

	In Million Lire		
	Imports	Exports	Deficit
1914.....	2,923.3	2,210.4	712.9
1915.....	4,703.5	2,533.4	2,170.1
1916.....	8,385.7	3,093.8	5,291.9
1917.....	11,352.1	3,316.4	8,035.7

How the gigantic deficit was liquidated is not wholly clear. In an interesting table published by Signor Nitti, Minister of the Treasury, the loans of the Allies were given as of 1,270 million paper lire in 1915 and 2,900 million paper lire in 1916. Signor Stringher adds the further figure of 5,400 million gold lire as the total sum of loans by Allies in 1917, corre-



sponding perhaps to 8,000 million paper lire. It would appear that in 1917 the deficit was nearly covered by Allies' loans.

## 48.

## ITALY

## THE RISE IN PRICES AND THE FALL OF THE LIRA

*From our Correspondent*

Turin, July 5

Professor Bachi has from the beginning of the war compiled an index number of prices on the lines of that of the *Economist's* Index Number. The basis is 1901-1905, and the commodities selected are 40 in number, representing the most important markets. Subjoined is a comparison between Bachi's and *Economist's* index numbers:

	January, 1915	January, 1916	January, 1917	January, 1918	May, 1918
Cereals and Meat					
Italian.....	142.9	179.9	210.4	326.0	374.9
British.....	157.2	189.3	262.0	244.4	249.4
Other Food Products					
Italian.....	116.0	177.9	219.6	285.1	333.8
British.....	137.7	155.0	187.0	228.7	259.2
Textiles					
Italian.....	103.5	189.1	301.3	513.8	578.3
British.....	107.0	156.5	227.4	343.9	354.7
Minerals and Metals					
Italian.....	167.0	434.3	507.1	869.4	950.8
British.....	130.2	190.4	206.4	207.2	212.4
Miscellaneous					
Italian.....	126.4	212.0	247.6	388.1	454.3
British.....	149.6	176.9	223.9	265.8	273.8
General					
Italian.....	132.7	232.3	290.0	462.3	523.0
British.....	136.5	174.5	225.1	262.9	273.4

48. July 27, 1918, p. 111. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

For the sake of comparison, the *Economist's* Index Number has been reduced to a percentage change, the 1901-1905 level being taken as 100. The difference between Italian and British index numbers is largely explained by the depreciation of the lira:

	Jan., 1915	Jan., 1916	Jan., 1917	Jan., 1918	May, 1918
Excess of Italian over British number index.....	- 3.8	+ 57.8	+ 64.9	+ 199.4	+ 249.6
Of which the depreciation of the Lira explains.....	+ 5.3	+ 46.0	+ 72.3	+ 162.3	+ 194.6
Other causes.....	- 9.1	+ 11.8	- 7.4	+ 371.1	+ 55.1

Apart from minor fluctuations, the prices were, during the first three years of the war, higher in Italy by about the amount of depreciation of the lira. In 1918 they are higher than would be explained by this depreciation. The fall of the exchange value of the lira continues, however, to explain by far the largest part of the difference between the rise of prices in Italy and the rise in Great Britain and other Allied countries. This explains the widespread desire that something should be done towards fixing the exchange between the lira and the pound sterling, or dollar or franc, at a level more favourable to Italy. The Rome Exchange Institute has not been very successful in its endeavours to that end. Public opinion in Italy has greeted with favour the announcement that the United States Government countenances the idea of regulating the exchange between dollars and lira; and similar agreements with Great Britain and France will be welcomed. The gradual appreciation of the lira would be a great factor in the moral endurance of Italy during the war.

The following table shows the results of the analysis of variance for the data in Table 1. The total sum of squares is 100.00. The sum of squares due to the treatment is 10.00. The sum of squares due to the error is 90.00. The F-ratio is 1.00. The probability of the F-ratio is 0.95.

	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939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# ITALY IN WAR TIME

## FROM POST-WAR CRISIS TO THE FIRST PERIOD OF FASCISM IN POWER, 1919-1924

In 1919, however, deposits in State Savings Bank decreased in the first year of the year. The number of accounts, which was 5,345,000 at June 30, 1918, decreased to 4,775,797 at June 30, 1919, and the deposits from 2,121,200,945 to 1,864,737,729 lire between the same dates. Soon after the declaration of war by Italy against Austria deposits increased, and June 30, 1916, the number of accounts there was again 5,342,942 and the deposits 2,307,612,597. The deposits were up, as follows:

	Number of Accounts (1000)	Deposits (1000)
June 30, 1917	4,837,475	2,320,044,415
June 30, 1918	4,775,797	2,121,200,945
October 31, 1919	4,775,797	2,307,612,597

The increase in deposits was restricted to the State Savings Bank. If we sum all the deposits in all the banks — of local, ordinary, savings, and post-office banks — we obtain the following results for the year of 1919:

	June 30, 1918	June 30, 1919	June 30, 1920
Sum of deposits in all banks	2,307,612,597	2,320,044,415	2,320,044,415
State Savings Bank	2,307,612,597	2,320,044,415	2,320,044,415
Other banks	2,307,612,597	2,320,044,415	2,320,044,415

The increase in the current accounts which was reflected by deposits in the State Savings Bank was not reflected in the other banks.

At the end of 1919, the State Savings Bank was not only the largest bank in Italy, but also the most powerful. It was the only bank in Italy which was not a part of a group of banks.

FROM POST-WAR CRISIS TO THE FIRST PERIOD  
OF FASCISM IN POWER  
1919-1929

# 49.

## ITALY IN WAR TIME

### SAVINGS DEPOSITS – NOTE ISSUES – WAR COST AND DEBT – DIVIDEND RESTRICTIONS

*From our Correspondent*

Turin, January 11

As in other countries, deposits in State Saving Post Bank decreased in the first year of the war. The number of accounts, which was 6,330,283 at June 30, 1914, decreased to 6,295,797 at June 30, 1915, and the deposits from 2,121,280,945 to 1,861,737,720 lire between the same dates. Soon after the declaration of war by Italy against Austria the tide turned; at June 30, 1916, the number of accounts open was again 6,382,945 and the deposits 1,987,639,997. The increase went on, as below:

	Number of Accounts Open	Deposits Lire
June 30, 1917 .....	6,608,899	2,352,916,019
June 30, 1918 .....	6,750,472	2,919,370,390
October 31, 1918 .....	—	3,193,126,929

The increase in savings was not limited to the State Post Bank. If we sum all the deposits in all the banks – of issue, ordinary, savings, and popular banks – we obtain the following results (in millions of lire):

	June 30, 1914	June 30, 1915	June 30, 1918
Current accounts (subject to withdrawal by cheque).....	1,491.2	1,724.2	2,941.6
Savings deposits.....	6,104.2	5,332.1	9,290.2
	<u>7,595.4</u>	<u>7,056.3</u>	<u>12,231.8</u>

The increase in the current accounts subject to withdrawal by cheque

49. February 1, 1919, pp. 135-137. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



on June 30, 1915, when saving deposits were decreasing, is explained by the moratorium, which induced depositors to withdraw deposits from savings deposits, subject to limitation, and transfer to the banks of issue, whose current accounts were exempt from moratorium. Afterwards all fear disappeared, and, with the help of an expanding circulation, the banking deposits increased with a velocity truly astounding to those which remember the more slow pace of peace times.

The following figures are interesting as showing the increase in the sum of notes issued by the three banks of issue (Banca d'Italia, Banca di Napoli, and Banca di Sicilia) and by the State (in million lire):

	Notes Issued by the Banks of Issue			State Issue	Total
	Banking Issue	Notes Furnished to the State	Total		
December 31, 1913 .....	2,283.5	—	2,283.5	499.1	2,782.6
July 31, 1914 .....	2,265.2	—	2,265.2	499.1	2,764.3
August 31, 1914 .....	2,612.0	133.0	2,745.0	524.1	3,269.1
December 31, 1914 .....	2,201.1	734.9	2,936.0	657.2	3,593.2
June 30, 1915 .....	2,242.5	1,613.5	3,856.0	765.8	4,621.8
December 31, 1915 .....	1,898.7	2,069.3	3,968.0	1,082.1	5,050.1
June 30, 1916 .....	2,158.2	2,157.6	4,315.8	1,135.0	5,450.8
December 31, 1916 .....	2,458.2	2,554.2	5,012.4	1,317.3	6,329.7
June 30, 1917 .....	2,521.0	3,294.7	5,815.7	1,459.9	7,275.6
December 31, 1917 .....	2,592.0	5,833.0	8,425.0	1,748.8	10,173.8
June 30, 1918 .....	3,589.6	6,481.4	10,071.0	2,112.5	12,183.5
September 30, 1918 .....	4,000.7	6,882.5	10,883.2	2,197.8	13,081.0

The total issue increased from 100 on July 30, 1914, to 473 on September 30, 1918. The greatest increase was in the State direct issue, viz., of notes for 5 and 10 lire (about 4 or 8 shillings at the par of exchange), which are utilised for retail transactions. The silver coins of 1 and 2 lire are almost gone out of circulation, and were substituted by equivalent paper, *Buoni di Cassa*, which are included in the above figures. Of the notes issued by the banks of issue the maximum increase was in those furnished by the banks to the State Exchequer. The remaining part, entitled "Banking Issues", which has its counterpart in "Loans and Advances", positively decreased in the first years of war, as the custom of cash payments for a time prevailed. The recent increase in banking issues appears to be partly due to the arrears in payments by Government Departments to the trade, which force the industrial concerns to resort to banks for advances and also to payments in Treasury bills, which are discounted by recipients at the banks. Great as has been the increase in note issues, the Treasury claims

that the increase was relatively lower than in France and Great Britain, not to say Germany, Austria-Hungary, and Russia.

Many calculations were made during the war of the war expenditure in Italy. The following is, however, the first official estimate. The period considered is from August 1, 1914, to October 31, 1918, and the figures are in million lire:

August 1, 1914, to June 30, 1915 .....	3,039.2
July 1, 1915, to June 30, 1916 .....	8,351.5
July 1, 1916, to June 30, 1917 .....	14,132.2
July 1, 1917, to June 30, 1918 .....	19,734.6
July 1, 1918, to October 31, 1918 .....	6,725.6
	<hr/> 51,983.1
Various deductions.....	984.6
Payments by War, Munitions, Marine, Transport and Pensions Departments	50,998.5
Add –	
Payments to be made in foreign countries for goods and services received	8,000.0
Interests paid upon war debts by the Treasury .....	3,620.5
Total payments relating to war .....	62,619.0
Deduct –	
Military expenditure, which would have been made, if peace prevailed during the period considered .....	3,545.7
Net war expenditure .....	59,073.3

The absolute sum is lower than that of other belligerent great Powers. But if the sum spent is compared to the private wealth of Italy prior to the war, which was estimated at 80,000 million lire, and can, at the utmost, be stretched to 110,000 million lire, it is easy to conclude that Italy is, of all the Allies, the country which has sustained the most crushing financial effort, relatively to her previous wealth.

The following are the figures relating to the State debts in Italy at the date of October 31, 1918 (in millions of Lire). (See table at p. 140).

That the sum of war debts is of 49,457 million lire, while the total war expenditure was of 59,073 million lire, may be explained by the fact that the figure of 49,457 millions of war debts is the nominal figure, representing the sum that the State is obliged to repay to its creditors. That sum may be higher or lower than the real sum which the Exchequer has received. It is higher in the case of National War Loans, which, having been issued at various prices below par, had given to the Exchequer the sum of 10,084.5 million lire only, instead of the nominal sum of 14,737. The sum registered is lower than the sum received in the case of foreign loans, as in addition to 13,851 millions lire nominal debt at the par of exchange with sterling, dollars, and francs, the Government received 7,800 millions lire, owing to the

1. Old debts, previous to the present war.....	13,636
2. War debts.....	49,457
National War Loans	
First, second, and third loans.....	4,628
Fourth loan.....	3,986
Fifth loan.....	6,123
	<u>14,737</u>
Treasury Bonds, 5% (three and five years).....	3,052
Exchequer Bills, from three to twelve months.....	9,240
Treasury Bonds discounted by Allied (British and American) Governments and other credits opened by the same Governments.....	13,851
Notes issued by the banks of issue for Government account.....	6,536
Notes directly issued by the Government (not including the <i>Buoni di Cassa</i> for 1 and 2 lire).....	2,041
	<u>49,457</u>
Total war debts.....	
General total.....	<u>63,093</u>

greater number of lire in which sterlings, dollars, &c., were exchanged. Other items of expenditure included in the 59,073 millions have yet to be liquidated, and a sum of 4,791 millions lire was obtained by war taxes.

An index of the industrial progress of Italy during the war is furnished by the statistics of joint-stock companies. A few figures may be interesting:

Years	Number of			(In Millions of Lire)		
	New Companies Constituted	Old Companies Dissolved	Increase or Decrease in the Number of Companies	New Capital Invested	Old Capital Lost or Disinvested	Increase or Decrease of the Capital Invested
1916.....	173	96	+ 77	410.0	178.2	+ 231.8
1917.....	287	87	+ 200	1,362.7	77.3	+ 1,285.4
First quarter of 1918.	237	39	+ 198	1,151.6	30.1	+ 1,121.5
Third quarter of 1918	160	30	+ 130	1,174.2	25.4	+ 1,148.8

The most striking increases were in the iron and steel companies – 286.8 millions in 1917, 316.5 in the first quarter of 1918, and 586.5 in the third quarter of 1918. The increase was partly of a permanent character, and partly due to the financing of war enterprises. A not indifferent cause of increases of capital was the limitation of dividends, which was imposed by the Government in 1916. The joint-stock companies, which, notwithstanding the war profit tax graded to 60 per cent. and the ordinary



income-tax of 16 per cent., could not infrequently distribute a dividend greater than the legal maximum (10 per cent. for new companies, 8 per cent. or the mean of three previous dividends for the old companies), and which are fearing a retrospective increase of war taxes, endeavoured to elude the legal limitations. The first attempts to increase the capital, on which a dividend may be paid, by a distribution of bonus shares, given gratuitously to shareholders by conversions of reserves, was made vain by a new decree, which declared that such bonus shares should remain dividendless till after the peace. Numerous companies resolved then to increase the capital proper. As the new shares are sold at par to the old shareholders – the issue at a price above par is practically impossible, since, by a technicality of our income-tax law, the premium above par would be deemed “income”, and subjected to the income-tax, recently increased in most cases from 16 to 24 per cent. – the result is thus obtained of distributing a greater mass of dividends than would be legally possible without the increase of capital. This is truly a most unfortunate result of the legislation for the limitation of dividends, as none can say whether in the after-war period all such capital artificially increased will find employment. Another unfortunate result of the same legislation was that all companies, even those which would have spared a part of their profit, endeavoured by all means to reach the limit of 8 per cent., for fear lest the Government should in after times absorb the undistributed profits. And thus it is very difficult to say whether the results of the limitation of dividends policy were in the main beneficial or hurtful to the common good and to the industry.

## 50.

## ITALY

## THE NEW GENERAL TARIFF PROPOSALS

*From our Correspondent*

Turin, October 27

With the general elections pending, all the Parliamentary Commissions have suspended work. The Chamber of Deputies Commission, which

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50. November 15, 1919, pp. 903-904. This is part of a correspondence from Italy, unsigned, entitled: “Italy. The new general tariff proposals. Public finance”. Written by correspondents in Verona and Turin, it is published in the section: “Overseas Correspondence”. Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

ought to report on the new general tariff, had to leave its work unfinished. The Government took the opportunity for sending the new tariff for examination to the most important manufacturing and trading associations, asking for their advice. What will be the response of the trade world is uncertain. But it is highly probable that in manufacturing circles the proposals will create a clamour for greater protection, and that the voices requesting a lowering of the highest duties will be few, mostly from the agricultural interest. The new tariff ought, indeed, to alarm consumers and maritime and trading interests. The tariffs are really two: 1) the first is to apply provisionally only to goods imported from ex-enemy countries. The existing general tariff is to be increased by a supplement, which goes from 20 to 400 per cent. – in one case to 1,000 per cent. – of the existing duty. This tariff will necessarily have a short life. 2) The second, or new general tariff, is much more important, as it will take the place automatically of all the existing tariffs with the countries with which the present commercial treaties will not be renewed. The trend of the new tariff is distinctly Protectionist. Take the example of machinery. I give below a comparison between the old (existing) general tariff and the new tariff proposals:

	(In Lire, per Quintal)	
	Old Tariff	New Tariff
Steam machinery .....	12	19-112
Hydraulic machinery .....	10	19-57
Locomotives .....	14	36-43
Locomotives .....	12	31
Sea steam machinery .....	12	19-112
Agricultural machinery		
Reapers and mowers .....	4	16-20
Others .....	9	17-22
Grinding machinery .....	10	19-23
Weaving machinery .....	10	19-23
Electric machinery		
Of a weight greater than 1 ton .....	30	35-45
Of a weight of 1 ton and less .....	30	50-135
Sewing machinery .....	25-30	39-55
Mill (flour) machinery .....	10	23
Paper-making machinery .....	10	20
Typographical and lithographical machinery .....	10	22-46
Other machinery .....	10	20-48

Next to the great all-round increase in the duties the most interesting feature is the minute discrimination in the qualities of the goods dutiable. For instance, the present tariff groups all the spinning machinery under the

same number, which is dutiable at 10 lire per quintal. Under the new tariff the spinning machinery will be divided into three classes:

	Duty per Quintal
Over 30 quintals weight.....	19
Over 10 quintals up to 30 quintals....	21
Of 10 quintals and less .....	23

The less the weight, the greater the duty per unit of weight.

The tariff aims at counterbalancing the increased cost of production: increases of wages, of coal, of transport, of taxes are the reasons which the compilers of the tariff quote in justification of the increases which tend to put a wall around the Italian borders. But, if the increase of cost is general, of what avail will be the tariff? So far, however, the public, absorbed in political and national contests, have paid but little attention to fiscal matters. They are much more interested in the plans for a levy on old and new capital, which are elaborated by Governmental Commissions. The few Free-traders and some agricultural organisations have not wholly lost the hope that the new Parliament will put an end to the efforts made to charge on industry and trade a tariff tax more onerous than a capital levy and an income-tax combined.

## 51.

### ITALY

#### BANKING DEPOSITS AND INFLATION

Turin, January 6

The statistical appendices to the last Budget speech of the Finance Minister, lately published, contain some interesting figures on the economic condition of Italy. Banking deposits have risen continuously during the war, as is shown in the following table (in 100,000's of lire, 00,000 omitted):

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51. January 24, 1920, pp. 144-145. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



	June 30, 1914	June 30, 1915	June 30, 1916	June 30, 1917	June 30, 1918	June 30, 1919
Banks of issue.....	100,0	649,6	504,7	412,7	703,7	774,5
Ordinary banks.....	1,044,6	664,8	907,7	1,335,4	2,188,5	3,447,7
Popular banks.....	703,5	583,4	707,9	880,4	1,037,7	1,423,7
Co-operative banks.....	507,8	427,4	531,7	669,2	817,0	1,237,3
Savings banks.....	2,800,0	2,552,4	2,905,1	3,432,7	4,034,7	5,589,2
Postal savings office.....	2,121,3	1,861,7	1,987,6	2,352,9	2,919,4	4,223,7
Public pawning houses.....	214,5	220,0	245,4	284,6	337,4	457,4
Rural banks.....	103,7	96,8	112,3	150,9	193,4	282,0
	7,595,4	7,056,3	7,902,4	9,538,8	12,231,8	17,435,5

Public pawning houses (Monti di Pietà) are included, because they have separate departments, which accept deposits, and are in all respects true savings banks. After a decrease in 1915, in the first year of the war, and having remained stationary during 1916 and 1917, the deposits began to increase, with an accelerated pace as time went on. After June 30, 1919, the rise continued, for it is highly probable that a December 31, 1919, the deposits will not be far short of 20,000 million lire. In the first year of the war the decrease was almost general, only the Monti di Pietà and the banks of issue escaping the general fate; the first because of their public character, the last because they were exempted from the moratorium, and so people began to patronise them, notwithstanding the very low rate of interest allowed. The figures show the great hold public (saving banks, Postal Savings Office, and Monti di Pietà) and co-operative (popular, co-operative and rural) institutions have on the depositing Italian public; less than a fourth part of the deposits are in the hands of ordinary banks and banks of issue. To-day, however, popular, co-operative, savings and rural banks are true banks in the ordinary sense; they discount bills and transact all sorts of ordinary banking operations, principally in a small way, for the benefit of small traders and agriculturists.

Increases in the capital of joint-stock companies are traced in the following table (in 100,000 of lire, 00,000 omitted). (See table to p. 145).

Monetary inflation has much to do with the extraordinary increases of the share capital of joint-stock companies. The same capital will not to-day do the same work as in old times, but a residue of genuine increase is evident. Old private firms and companies are busy transforming themselves into joint-stock companies.

	1916	1917	1918	First Six Months of 1919
Share capital issued in new companies.....	176,4	494,3	804,5	472,3
Ditto old companies.....	233,5	868,4	2,216,3	1,086,4
Total new capital.....	409,9	1,362,7	3,020,8	1,558,7
Decrease in the share capital				
For winding up of old companies.....	59,9	44,5	51,7	48,0
For writing down of the nominal value of shares.....	118,3	32,9	14,4	31,1
Total decrease.....	178,2	77,4	66,1	79,1
New increases of share capital.....	231,7	1,285,3	2,954,6	1,479,6
New debentures issued.....	33,0	113,4	7,0	—

## 52.

## ITALY

## PRODUCTION, CREDIT, AND PRICES - THE NEW LOAN

*From our Correspondent*

Rome, February 1

Italian statistics are greatly in arrear, and it is possible only with the greatest difficulty to discover figures relating to the economic development of Italy during the war. That production has been, on the whole, shrinking, may be judged from the following comparison between agricultural production in 1913 and 1918:

		1913	1918
Wheat.....	Tons	5,845,200	4,988,500
Maize.....	"	2,753,200	1,940,000
Rice (raw).....	"	543,200	523,500
Potatoes.....	"	1,789,200	1,409,900
Beet.....	"	2,730,000	1,146,000
Leaves of mulberry.....	"	889,400	1,073,000
Lemons and oranges.....	"	876,500	700,000
Wine.....	Hectolitres	5,224,000	3,500,000
Olive oil.....	"	174,200	270,000

Greater variations up and down are shown in the figures for mining and manufacturing industries:

52. February 14, 1920, p. 320. The article, unsigned but dated "Rome, February 1", was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because the author is evidently the same as the previous article.

		(00's omitted)	
MINERAL INDUSTRIES		1913	1917
Iron ore.....	Tons	603.1	993.8
Iron pyrites.....	"	317.3	500.8
Copper.....	"	89.5	86.8
Spelter.....	"	158.3	79.4
Lead.....	"	44.6	39.1
Lignite and other fossil combustibles.....	"	701.1	1,722.1
Sulphur (raw).....	"	386.3	211.8
Marble.....	"	509.3	134.2
IRON AND STEEL			
Pig iron.....	"	426.7	471.2
Steel.....	"	846.1	1,331.6
VARIOUS INDUSTRIES			
Raw silk.....	"	4.7	2.7
Cotton.....	"	194.6	133.9
Jute.....	Raw material used in manufacture	41.4	10.0
Hemp.....		44.0	52.5
Flax.....		5.4	2.4
		1,913.14	1,917.18
Sugar.....	"	305.6	92.6
Pure alcohol.....	Hectolitre	37.2	29.9
Impure alcohol.....	"	14.3	6.1
Electrical power produced			
	Millions of E.W. hour	23,119.3	33,915.9
Illuminating gas.....	Cubic metres	391,109.0	797,991.7
New water-power plants.....	H.P.	18.2	29.9

Except in the cases where the difficulty of procuring materials was overwhelming, Italian industry has made a great and in several instances a successful effort toward increasing production and meeting the war needs.

The increase in values was far greater than the decrease of output. The substitution of water-power for coal has been the cause of great capital investments, and of the various increases in mineral and steel industries. In a previous letter (*Economist*, January 24<sup>th</sup>) I gave figures on the increases of the share capital of the joint-stock companies. The increases, which in the years previous to war totalled from 100 to 200 million lire yearly, reached 1,285 millions in 1917 and 2,954 million lire in 1918. A recent calculation gives the figures of a total of 4,414 joint-stock companies existing in Italy at December 31, 1918. The total share capital – practically in Italy all the share capital is ordinary capital – amounted at that date to 11,782,905,381 lire.



The financing of public companies and private firms has caused large increases in the figures of loans and discounts by the banks. Here is a comparison for the three issues banks (Bank of Italy, Bank of Naples, Bank of Sicily) (in millions of lire):

	Discounts	Loans (with Collaterals)
1913.....	3,899.9	1,200.4
1918.....	5,867.9	6,813.3
1919 (first nine months) .....	2,660.8	3,085.8

The four great ordinary banks (Banca Commerciale Italiana, Credito Italiano, Banca Italiana di Sconto, and Banco di Roma) show the following movements in the principal items of their balance-sheets (in millions of lire):

	Dec. 31, 1913	Dec. 31, 1918	Sept. 30, 1919
Capital and reserves .....	647.0	774.0	1,084.1
Deposits .....	702.1	1,973.1	2,563.0
Correspondents (creditors) .....	971.5	5,514.0	7,757.4
Cash .....	129.2	518.4	646.6
Discounts .....	1,035.2	4,500.9	6,773.9
Advances .....	220.6	587.5	536.6
Investments .....	169.5	220.0	294.4
Correspondents (debtors) .....	750.7	2,795.6	3,805.3

Monetary and credit inflation is responsible for much of the great rise in prices. According to Professor Bachi's Index Number, the rise was as follows in 1919. The basis is, as in the *Economist's* Index Number, 1901-5, 100. The classes are the same as in your indexes.

Date	Cereals and Meat	Other Food Products	Textiles	Minerals	Miscellaneous	General Number Index
Basis (average 1901-1905).....	100	100	100	100	100	100
Average 1913 .....	120.2	146.1	120.6	121.0	117.9	126.0
" 1914 .....	122.5	122.6	116.1	121.0	113.4	119.8
" 1915 .....	159.6	136.4	139.1	249.2	157.8	167.2
" 1916 .....	188.3	195.5	219.4	459.4	224.9	251.6
" 1917 .....	252.4	249.9	393.9	721.1	370.8	385.9
" 1918 .....	374.9	334.0	572.6	908.7	460.8	515.5
January, 1919 .....	365.5	438.7	398.4	370.0	496.9	412.7
April, 1919 .....	353.4	482.1	407.7	434.2	411.4	415.7
July, 1919 .....	401.8	484.9	483.2	508.6	403.7	452.7
October, 1919 .....	391.7	531.3	601.9	562.1	402.0	487.0
November, 1919 .....	394.8	539.0	764.0	699.1	414.1	547.1

As prices increased between 1914 and November, 1919, from 119.8 to

547.1, or, say, 356 per cent., whereas the total production of goods has probably remained the same, or even diminished, while the note issue (banking and State) increased from 2,800 to 18,000 million lire (in round figures), or 540 per cent., it is reasonable to fear that the upward movement of prices has not spent itself. Public opinion and Governmental circles have fortunately been aroused at last to a recognition of the gravity of the situation. The sixth national loan is meeting with a remarkable success. At the end of January the sum subscribed was already over 12 billion lire, or the double of the fifth loan, which had won the Italian record with a figure of 6 billions. The Treasury Minister, Signor Schanzer, has repeatedly stated that the proceeds of the loan will be devoted only to reduce the amount outstanding of Treasury bills and of notes issued. If a permanent check is put to new note issues, one may hope to see the end of the rise in prices.

### 53.

#### ITALY

#### THE CAPITAL TAX

*From our Correspondent*

Turin, May 7

The *Gazzetta Ufficiale* of May 1, 1920, contains a new edition (dated April 22, 1920) of the legislative orders relating to the extraordinary capital tax, tax on increments of capital owing to war, and to the extraordinary tax on dividends of shares and other bearer securities. The history of variations of the Italian capital tax is an interesting instance of the difficulties which are necessarily incurred by Governments desirous to transform into a reality the general idea of a levy on capital. There were three stages in the Italian experience on this subject. In July last the Nitti Cabinet, shortly after coming to power, decided to create an extraordinary tax on capital, with a discrimination against fortunes made by war. This decision was probably all that the Government had thought on the matter. A Departmental Commission was nominated, from which, after some very general debates, a

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53. May 15, 1920, pp. 1004-1005. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

small Committee was selected, composed of Professors Cabiati, Einaudi, Gini, Griziotti, and of Dr. Benettini and D'Aroma, of the Department of Finance. This Committee set to work, and in the last days of September, 1919, produced a project, which was afterwards called, in the public Press, the specialists' project. Passing over the very detailed sections relating to valuation, payments, penalties against offenders of the law, the gist of the project was as follows: – All men and women – political persons, excluding juridical persons, such as public bodies, joint stock companies, and the like, which are to be taxed through the shareholders, &c., – possessed of a capital of at least 20,000 lire (£ 800 at the par of exchanges) are to be subjected to an extraordinary *forced loan*. The loan to be of 5 per cent. of a capital of 20,000 lire, 9.96 per cent. on 100,000 lire, 13.09 per cent. on 200,000 lire, 20.69 per cent. on 1,000,000 lire (£ 40,000), 31.01 per cent. on 10,000,000 lire, and 40 per cent. on 100,000,000 and over (£ 4,000,000 and over). The payment of the forced loan was to be distributed over eight years if three-fourths of the capital consist of land and houses, over six years if land and houses constitute from a fourth to three-fourths parts of the capital, and four years if land and houses are less than a fourth part of the total capital. The years are always four and the tax always 40 per cent. for the *bearer* securities (Consols and other public debts, securities, shares, debentures, &c.) which are not registered or inscribed, somewhat in the fashion of English securities, in a term of six months.

Notwithstanding the name of *forced loan*, the tax was, in truth, a capital levy, because the taxpayer had the right to reduce the payment to two-thirds of the published rate when he declared his intention of renouncing to the bonds of the forced loan. As the loan was to give a dividend of only 1 per cent. and to be redeemed in 70 years from January 1, 1930, the full payment of the tax, with the bonus of a 70-years 1 per cent. bond, was equivalent to a two-thirds payment without the bonus of the bond.

The project was received with mixed feelings by the public opinion. Great was the apprehension 1) of landed and housing interests, which feared that payment in so short a time as eight years may lead to general selling and lowering of values; 2) of banking men, who doubted a run on deposits; 3) of joint stock companies, which said that so high a tax as 40 per cent. on all bearer securities may cause a severe crisis on the bourses. In a country like Italy, in which inscribed or registered stocks and shares are little known (perhaps only five billions on a total of 80 billions of public debt and other securities), the problem of bearer securities is overwhelming, and is destined to baffle all attempts to a progressive tax on capital and income. What certainty is there of taxing in proportion to



the real fortune if the bearer securities are escaping? The device of taxing these securities at the maximum rate, or 40 per cent., was imagined to force possessors to inscribe them.

As a matter of fact, the Government delayed legislation till after general elections – and the delay was one of the causes of the Socialists' great success, as it gave them a popular platform against the selfishness of the propertied class, which, after enriching themselves by the war, refused to pay an overdue tribute toward restoration of public finances; and on November 24, 1919, published a decree for a so-called extraordinary capital tax, *payable in 30 years*. The tax was to be 0.167 per cent. per annum on men possessed of a capital of 20,000 lire, gently rising to 0.833 per cent. per annum on fortunes of 100,000,000 lire and over.

The new decree of April 22, 1920, is a recognition by the Government that the critics were right in some of their strictures. The lower taxable limit is to be raised from 20,000 to 50,000 lire (£ 2,000 at the par of exchanges). The rate of the tax is put at 4.50 per cent. for fortunes of 50,000 lire, at 9.61 per cent. for 100,000 lire, at 11.62 per cent. for 1,000,000 lire, at 24.11 per cent. for 10,000,000 lire, at 40.14 per cent. for 50,000,000 lire, and at 50 per cent. for fortunes of 100,000,000 lire and over. The tax to be payable in 20 years if the fortune consist of 40 per cent. or over of land and houses, and in 10 years if the proportion of land and houses to total fortune is less than 40 per cent. The taxpayer has the right to redeem at any moment the payments yet to be made, with a discount of 6 per cent. per annum. The special tax on dividends of private *bearer* securities (*i.e.*, excluding always the State Consols, bonds, bills, &c.) is raised from 9 to 15 per cent.; and, as it does not exempt to possessor from the liability to the capital levy, it is hoped that many will inscribe their stocks.

The capital levy is accompanied, as it was, indeed, in all the stages, by an extraordinary tax on fortunes made during the war. The tax goes from 10 per cent. on 9 to 10 per cent. increases on pre-war fortunes to 80 per cent. on over 70 per cent. increases. The tax is very drastic; but it has to be remembered that the definition of "increases of fortune owing to war" is a special one. An increase of fortune has the same meaning as "war profit". And so the war profits – *i.e.*, the profits realised from August 1, 1914, to December 31, 1919, by traders and industrial and trading companies, which had already been taxed with a war profit tax from 10 to 60 per cent., according to the proportional excess over pre-war profit standard – are to be newly taxed on the remaining portion with the new tax on war fortunes. In some cases the two taxes will amount together to a rate of 91 per cent., which is truly not a small tax.

## 54.

## ITALY

## NOTE ISSUES AND PRICES – TRADE BALANCE – THE EXCHANGE OUTLOOK

*From our Correspondent*

Turin, May 21

Signor Bonaldo Stringher, general manager of the Bank of Italy, has published a second edition of his "Notes on the Position of Circulation and the Money Market During and After the War", which had proved so interesting to students of public finance in Italy. This second edition is even more useful, as it brings up to date figures and facts which it is very difficult to gather elsewhere. He gives the following figures of issues of paper money in millions of lire:

	Bank Notes			State Notes (Lire 5 and 10 Notes)	Tot. 1 Bank and State Notes	Buoni and Cassa (Lire 1 and 2 Notes)
	Issued to the Trade	Issued to the State Exchequer	Total			
July 31, 1914.....	2,265.2	—	2,265.2	499.1	2,764.3	—
December 31, 1915...	1,898.7	2,068.3	3,968.0	1,082.1	5,050.1	—
" " 1916...	2,498.2	2,554.2	5,012.4	1,317.3	6,329.7	—
" " 1917...	2,592.0	5,833.0	8,425.0	1,748.8	10,173.8	92.0
" " 1918...	4,584.7	7,165.9	11,750.2	5,154.1	13,874.3	213.0
" " 1919...	5,551.6	10,659.7	16,281.3	2,271.3	18,552.6	262.4
February 29, 1920...	—	—	—	2,271.3]	17,870.3	262.4
March 20, " ..	—	—	15,608.0	— ]	—	—

So far as I am aware, this is the only authoritative and complete statement of the various note issues in Italy. A few words may be useful to explain it. The bank notes are divided in two sections – notes issued for account of trade (loans on collaterals and discount of trade bills), and notes directly issued to the exchequer. This second section corresponds roughly to British ways and means advances; these are notes which the three banks

54. May 29, 1920, pp. 1203-1204. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. The argument of note issues is widely discussed in *Il Corriere della Sera* by Einaudi in the same period and in the same terms.

of issue hand over to the exchequer at a nominal rate of interest (from 0.10 to 0.25 per cent.), so that the exchequer may be able to make current payments. It is financing the war by paper issues.

The first section of notes – “trade notes” – are covered by gold and silver, and equivalent reserves, or issued against trade bills or loans on collaterals. It is highly probable that, if during the years from 1915 to 1917 the whole of this section were genuine trade issues, during 1918 and 1919 the figures were swollen by causes not connected with trade, but with war. The situation between trade and State issues is not to-day so clear as it was formerly.

The State notes, corresponding to British 10s and £ 1 “Bradburys”, went on increasing as prices rose. The same allegations are heard in Italy as in Great Britain from Treasury circles that not a single note has been issued beyond the requirements of trade necessity, and the same replies come from the economists, namely that the continued issues are the causes of the increases of prices, and of the increased clamour of commerce for more and more notes. The figures in the last column relate to the small notes for one and two lire (10 or 20 pence at the par of exchange), which were issued after September, 1917, to provide a substitute for silver coins, which were fast disappearing from active circulation. At December 31, 1920, against the 262.4 millions lire of little notes existed a reserve of 175.6 millions lire of silver coins. At the high price of silver the wisdom of not selling this silver stock is questionable.

As the total paper issues increased prices went up. The index number of Professor Bachi (basis 100 on the mean of 1901-05, as in the *Economist* index) was 119.8 for 1914 (mean of monthly index numbers), 167.2 for 1915, 251.6 for 1916, 381.9 for 1917, and 515.5 for 1918. The mean index number for 1919 is as yet not calculated, but the figure was 572.8 at December 31, 1919. The prices upon which Professor Bachi makes his calculations are wholesale prices. The increase in the cost of life for working and middle classes is less than 472.8 per cent.; perhaps 300 per cent. But it is sufficient to explain the unrest among the masses.

Space forbids me to point out the reasons which causes me to hope that the worst point has been surpassed. Owing to the brilliant success of the last (sixth) National loan – 20 billions lire, a truly astounding figure for Italy, of which, however, 13 billions were paid in exchequer bills and other short-dated State debt certificates, and only 7 billions in cash – a stop has been put to new increases in notes issued. The figures for February 29<sup>th</sup> and March 20<sup>th</sup> point to some reduction. If the stop is to be final, better times are ahead of us.



The figures of our international trade are also promising. I give the figures for January and February, 1920, the latest available (in millions of lire):

	Imports	Exports	Excess of Imports Over Exports
1919.....	2,430.7	467.7	1,963.0
1920.....	1,997.9	966.3	1,031.6
	<u>- 432.8</u>	<u>+ 498.6</u>	<u>- 931.4</u>

The prices for both years are those of 1919, so that the figures are significant for quantities and not for values. But the trend of the movement is unmistakable. The balance of trade is redressing, and as the movement dates from July, 1919, we may hope that at last the lira will appreciate in the International markets, provided that the check to new note issues is severely maintained.

## 55.

## ITALY

FALLING FOREIGN EXCHANGES AND SECURITIES –  
GERMAN INDEMNITY AND FOREIGN DEBT

*From our Correspondent*

Turin, June 4

Price movements in the Italian Stock Exchanges – of which there are five, Milan, Turin, Genoa, Roma, and Florence, quoted in their order of importance – are viewed by the public with mixed feelings. People rejoice when they see the foreign exchanges crumble. The £, instead of 100-105 lire at April 10<sup>th</sup>, is to-day quoted 66-67 lire, the dollar 17 lire instead of 25 lire, Swiss franc 3.10 instead of 4.70, French franc 1.33 instead of 1.60. The fall in imports and the rise in exports has contributed to this result. The banks, also, had persuaded their customers to buy foreign bills needed to pay for imports; and this counsel of wisdom, if it sent up the exchanges in April, when all importers were covering themselves for the

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55. June 12, 1920, pp. 1296-1297. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

fulfilment of old and new engagements, has eventually modified the course of foreign exchanges in our favour.

But, together with foreign exchanges, the prices of bonds and shares are crumbling also; for instance, the shares of the Bank of Italy, which were quoted 1,525 on April 10<sup>th</sup>, are to-day at 1,440; the Banca Commerciale shares have fallen from 1,300 to 1,175, the Credito Italiano from 860 to 745, the Banca Italiana di Sconto from 620 to 580, the Navigazione Generale Italiana from 850 to 835 after touching 950, Acciaierie Terni (Steel-works) from 1,160 to 950, Fiat (motor-car) from 390 to 340, Ansaldo from 210 to 185, Beni Stabili (house proprietary company of Rome) from 375 to 310, Fondi Rustici (land company) from 295 to 275. The reaction has several causes. The rise of the official rate of discount from 5 to 6 per cent., followed by a rise from 5 to 7 and 8 per cent. for bourse prolongations, has compelled many bulls to realise. The fall of the foreign exchanges, it is hoped, will bring at last a fall in prices and of profits, so that the present market valuation of shares of joint-stock companies may prove too high. Not a few people are realising stocks and shares, so that they may not include them in the affidavit for capital tax, which should have been made at May 31, 1920, which date has been at the last moment changed to June 10<sup>th</sup>. Many fear that the Government may abolish all bearer certificates for bonds and shares, and oblige all possessors to inscribe them with their names; and for this reason they are selling securities for cash, which may be hidden from the tax gatherers.

There has been much talk in newspapers and financial circles on the fixing of the German indemnity discussed at Hythe between the British and French Premiers. The news that 55 per cent. of the indemnity will go to France and 25 per cent. to Great Britain, leaving only 20 per cent. to Italy, Belgium, and Serbia together, has come as a surprise, if not to a few insiders, to the great mass of public opinion.

The old pro-German party are raising their heads, and, with the assent of many sincere patriots, they point: 1) to territorial aims of Italy which have not been fulfilled. On which point I will remark only that the greatest need of Italy at the present moment is a true peace, with territorial boundaries precisely defined; 2) to the crushing load of internal (perhaps 60 billions lire) and external (21 billions lire at the par of exchange) debts. Leaving out of account the internal debt which we may manage to solve ourselves, there remain the external debts towards Great Britain and United States. As you have so truly remarked, and as Mr. Keynes has admirably put in his book [*Economic Consequences of the Peace*], the external debt will be a source of great embarrassment for the Italian Budget, for our for-

eign balance of payment, and a source of lasting friction between Italy and her allies. Italians are an honourable people, and they will honour their signature, if obliged to do so. But many hoped in Italy that our allies would have accepted a cession of our right to German indemnity in payment of their claims. The news that Italy will have the right only to a part of 20 per cent. of the indemnity has meant a sheer disappointment to all who worked for a lasting alliance between Italy and the Anglo-Saxon world; and has given a new life to pro-Germans and Bolsheviks, who point to the "Anglo-American-French octopus" in possession of Gibraltar, Suez, Constantinople, of coal and iron and wheat, and cotton and wool, and in a position to strangle Italy if she cannot pay the interest of 21 billions of foreign debt. Of what use has been the victory if victory has left us crushed by a charge greater than the worst indemnity that would have been exacted from us by a victorious Germany? Many who have steadfastly worked for the permanent co-operation of Western nations had hoped that a pool would have been made of all expenditure incurred during the war for a common cause, and the strongest nations (United States and United Kingdom) would have assisted the weakest (France and Italy) in supporting the common load. If their hopes are shattered, they will have a difficult task when trying to persuade an angry public opinion to abide by the cause which Italy had so courageously espoused in 1915.

## 56.

## ITALY

## BUDGET DEFICIT AND THE BREAD SUBSIDY

*From our Correspondent*

Turin, June 19

The great event of recent days has been the fall of the Nitti Cabinet and the return to power of Signor Giolitti. Signor Nitti fell in an honest, even if ill-conceived, attempt to stop the fearful gap in the Budget originated by

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56. June 26, 1920, pp. 1395-1396. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. The issue of bread subsidy is widely discussed in some articles of *Il Corriere della Sera* in the period May-September 1920 and in the same terms.



the bread subsidy. As in most belligerent countries, the Government endeavoured during the war to give bread at a fixed price to consumers. The price was eventually raised from 60 to 85 centesimi (from about 6 to 8 pence) per kilogram; but this last price was well below the cost of production. The situation may be briefly stated thus. Against the total cost of 7,000 million lire the Government may reckon, as things are to-day, only on a selling price of 65 lire per metric quintal – *i.e.*, on a total receipt of 2,600 million lire. The difference, 4,400 million lire, is the expenditure which the bread subsidy throws on the 1920-21 Budget. It is an appalling loss, which has gone on increasing as the exchanges depreciated. The bread subsidy has cost the Italian Treasury about 10,000 million lire from 1915 to end of 1919; to-day the loss is estimated nearly at half that amount for a year only. The problem was rendered difficult to tackle by an unfortunate resolution of the Legislative Chamber, which said that the price could not be increased at the expense of the working classes. Nitti's Cabinet endeavoured to round off the corner by increasing the Government selling price of wheat from 65 to 115 lire per metric quintal, and consequently the bread price from 85 centesimi to 1.50 lire per kilogram, and at the same time putting an obligation on all employers of increasing salaries and wages by 25 centesimi daily for every person dependent upon workers. The system was clumsy, as it obliged every firm to have a list of their men, with particulars as to family, dependents, &c. Frauds were obviously possible. A further complication and a source of discontent was the proposal of a bread tax on all who had an income of more than 12,000 lire per annum. The tax was to be 300 or 500 lire, according as the taxpayer had less or more than 20,000 lire yearly income.

The proposal, in the face of a well-nigh general opposition, was given up. Soon after, the Cabinet resigned, and in their place Signor Giolitti has formed a Cabinet. But the bread subsidy problem remains as acute as before. The gravity has even increased, as recently the season has been very adverse to the crop, and the wheat production threatens to be only 40 million quintals instead of 48 millions. If so, we should be obliged to import another 8 millions, which would cost the Government 2,000 million lire, and would be sold at 520 millions. The charge is unbearable indeed. The ordinary Italian Budget for 1920-21 closes with a deficit of 2 to 2½ billion lire. This figure, though displeasing, is not appalling; as the revenues are increasing. New taxes are already in being, which in due time will balance the Budget. The true problem, is how to manage the extraordinary Budget, which for 1920-21 can be summed up:

- 1) Past Budget expenses to be liquidated, 1,000 million lire.
- 2) Bread subsidy loss, 4,000 to 6,000 million lire.
- 3) Public employees' cost of living subsidy, 600 to 1,000 million lire.
- 4) War expenses liquidation, 2,000 million lire.
- 5) Compensation for war losses in Venetian provinces, yearly instalment 1,500 million lire.
- 6) Loss on railways, 500 million lire.
- 7) Loss on maritime State navigation, coal, &c., 1,000 million lire.

This extraordinary Budget of about 16,000 million lire is a big stone around the neck of Italy, and a great task awaits the new Treasury Minister, Signor Meda. With a firm hand suppressing all unnecessary expenses, putting an end to bread subsidy, and finally liquidating all expenses connected with the war, we might hope in a few years to be rid of this extraordinary Budget. But the task is truly formidable, and the Cabinet and Minister who will perform it will merit great praise.

## 57.

## ITALY

## INCREASED TAXES — ABOLITION OF BEARER SECURITIES

*From our Correspondent*

Turin, July 5

As the first act of his Government, Signor Giolitti has laid on the table of the Chamber of Deputies several Bills purporting to put Italian finances in a sound condition. As I stated in a previous letter, the situation is grave. The Finance Minister has announced for the financial year 1920-21 an ordinary revenue of 9,000 million lire, and an extraordinary one of 1,500 millions from sale of war materials, &c., a total of 10,500 millions, against which the ordinary expenditure amounts to 11,545 million lire. This deficit would by itself not be very serious, as we can reasonably hope for a continuous growth of the new taxes, which in the

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57. July 10, 1920, p. 53. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. Articles on the same argument, similarly treated, were written by Einaudi in *Il Corriere della Sera* in the period May-June 1920.

present year will not give their highest product. To the ordinary Budget one must, however, add the extraordinary, 5,500 million lire for bread subsidy; 2,850 millions for expenses connected with War Department, the fleet, and the colonies (liquidation of war expenses); 2,000 millions for damages to be repaired in the provinces occupied by the enemy in 1917 and 1918; 1,300 millions for losses on maritime transport; 300 millions for relief to disabled men, &c.; 650 millions for high cost of living subsidy to State employees; 600 millions deficit of the State railway Budget. The extraordinary Budget thus reaches 13,200 million lire. As Signor Giolitti has hitherto said nothing concerning the bread subsidy his promises of economy are somewhat vague. As a means of counteracting the huge deficit he has laid more weight on new or increased taxes. The taxes on motor-cars will be greatly increased, especially on private motor-cars. The tax will be composed of two parts: one fixed, which rises from 310 lire yearly for motor-cars of not more than 9 h.p. to 2,500 lire for cars from 40 to 50 h.p. To the fixed tax is added a proportional tax, which is 10 lire per h.p. if the entire force is not higher than 12 h.p., 30 lire from 12 to 16 h.p., 90 from 16 to 24 h.p., 100 from 24 to 35 h.p., 150 from 35 to 50 h.p. Cars of 50 h.p. and more are put in a special class, which is taxed at the lump sum of 15,000 lire yearly. This tax will be well-nigh prohibitive, except for the very richest men.

The succession tax has been already increased four times in the present century; if this fifth increase be passed into law, the tax will weigh heavily on great fortunes. It would take too long to summarise the proposal in detail, as the rates of the tax vary in proportion to the degree of relationship between the deceased and the heir or legatee, to the amount of the inherited portion and to the estate of the heir or legatee. For instance, in the case of succession from father to son, the tariff of April 21, 1918, was of 1 per cent. if the inherited portion did not exceed 1,000 lire, and 1.50 per cent. if not 5,000, reaching 7 per cent. if the portion reached 1,000,000 lire, 8 per cent. up to 2,000,000, and 9 per cent if the portion of the heir or legatee exceeded 2,000,000 lire. A decree of November 24, 1919, had introduced new rates for inherited portions of more than 2,000,000 reaching 12 per cent. on inherited portions of 20,000,000 lire and more. The new tariff now proposed leaves untouched the rates up to 100,000 lire, for which it remains from 1 to 4 per cent. At 250,000 the rate is increased from 5 to 6 per cent, for 500,000 lire from 6 to 9 per cent., for 1,000,000 from 7 to 12 per cent., for 2,000,000 lire from 8 to 13 per cent., for 5,000,000 from 9 to 15 per



cent., for 10,000,000 from 10 to 18 per cent., for 20,000,000 from 12 to 20 per cent., and for inherited portions upwards of 20,000,000 lire the rate is increased from 12 to 25 per cent. In addition, if the son was, previously to his inheritance, personally possessed of an estate of 200,000 lire or more, to the succession tax is added an additional tax of 10 per cent. on his hereditary portion, provided that this tax is not higher than a third part of the difference between 200,000 lire and the previous estate of the heir or legatee. The taxes on other relatives are construed on the same lines. As I cannot go into too many details, I will say only that the tax for successions between relatives on the sixth grade or more, or between non-relatives, rises from 18 (portions up to 1,000 lire) to 70 per cent. (portions of more than 20,000,000 lire), to which is to be added the additional tax of 10 per cent. if the previous estate of the heir or legatee was higher than 200,000 lire.

Another highly significant Bill is one by which all war profits from August 1, 1914, to December 31, 1919, are forfeited to the public Treasury. Italy had a war profit tax which from the original 1911 maximum rate of 40 per cent. was already in 1916 put up to 60 per cent., superimposed to the ordinary income-tax. By a Royal decree of November 24, 1919, to the war profit tax was superimposed an increment of wealth tax, which absorbed from 5 to 80 per cent. of the remainder. If the Bill of Signor Giolitti becomes law, as is highly probable, all the old taxes will be merged in a general confiscation of 100 per cent. This applies to war profits, as defined by the law, viz., profits above 8 per cent. on capital or above income taxed in 1912-13, of industries, trade, commerce, and intermediation. The confiscation aims at social pacification; but it is doubtful if the ruin or embarrassment of many enterprises which, with a little capital, have obtained great success, will be followed by a real pacification of the masses. They will always point to many examples of people getting rich, from whom the wealth acquired during the war has not been confiscated owing to difficulty of assessment. This confiscation is an ominous precedent in the case of future wars. Who will risk capital and labour with a prospect of confiscation? The Bill applies to foreigners, who during the war have obtained in Italy profits which may be legally termed war profits. The last momentous Bill obliges all possessors of securities to register them in their name. The Bill puts an end to bearer securities, which were until to-day almost the only form known to Italian investors. All securities, from the State Rentes and municipality debentures to joint stock company shares and debentures, will cease to be bearer securities, and will have to be registered in

the name of the possessors. The precedent most frequently quoted in favour of this far-reaching reform is the English one. The Government aims by means of compulsory registration of all securities at knowing exactly the capital and income of all taxpayers. When taxes were principally raised by a uniform or constant rate of taxation, it was a matter of indifference to know the names of possessors of securities. But today, when income-tax, capital tax, and succession tax are made more and more progressive, it is very important to know who are the true possessors of securities. Bearer securities are able to be passed over by taxpayers when they make their returns for assessment. When the scale of graduation is very steep, the temptation to fiscal fraud is great indeed. The bourses have been very depressed in consequence of the announcement of the Bill. Almost all securities suffered a fall. Experience will show if registered securities will be marketable as well as bearer securities, and if savings will continue to be invested in public and private securities.

## 58.

## ITALY

## PRICE MOVEMENTS

*From our Correspondent*

Turin, July 16

The course of prices in Italy may be studied in the series of number indexes published every month by Professor Bachi, exactly after the method of the *Economist's* Number Index. Professor Bachi, in a recent number of *L'Economista*, has published the whole series of his number index from 1913 to May, 1920, to which I am able to add, thanks to the kindness of the author, the number index for June. The basis 100 is the average price of 1901-5, as for your number index. The Italian indexes are all percentage numbers.

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58. July 24, 1920, p. 146. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. Moreover, an article by Einaudi on the same argument, similarly treated, was published in *Il Corriere della Sera* (July 21, 1920) entitled "Il ribasso dei prezzi in Italia".

Date	Cereals and Meat	Other Food Products	Textiles	Minerals and Metals	Miscellaneous	Total	Economist' Number Index
1913 (average) .....	120.2	146.1	120.6	121.0	117.9	126.0	—
1914 - June .....	115.9	132.7	115.6	111.7	107.7	117.0	115.9
December....	136.0	119.8	102.2	142.1	113.6	119.7	127.3
1915 - June .....	149.5	124.6	126.3	260.3	154.5	161.3	147.7
December....	178.2	166.2	170.3	371.1	206.2	214.8	165.1
1916 - June .....	184.8	194.7	194.1	459.7	232.8	242.8	191.5
December....	205.7	198.7	278.8	594.2	243.7	294.6	223.0
1917 - June .....	229.8	249.4	371.0	722.5	297.1	362.9	256.6
December....	322.9	276.5	515.5	870.7	384.0	459.3	265.7
1918 - June .....	335.5	326.0	589.8	975.1	468.1	523.5	277.5
December....	365.0	418.4	584.3	520.9	509.5	468.9	277.0
1919 - June .....	396.6	501.8	455.9	506.6	396.0	451.0	281.3
December....	420.4	544.9	793.5	706.4	477.1	576.2	334.7
1920 - January .....	436.5	578.1	937.4	811.9	492.3	634.7	353.1
February....	438.6	582.2	1013.2	1036.7	522.7	701.0	370.9
March .....	458.5	610.4	1159.6	1205.2	576.0	780.0	379.6
April .....	475.2	712.6	1283.9	1302.5	630.8	855.7	374.2
May .....	530.2	728.4	1012.8	1317.8	619.4	830.3	372.7
June .....	535.0	741.1	895.3	1109.9	628.4	773.5	256.7

The general trend of prices is the same in Italy as in foreign countries, but the rise was eightfold, when in England it was not nearly fourfold. The difference between the rise in Italy and the rise in England may be partly explained by the rise in foreign exchanges, *i.e.*, the depreciation of the Italian paper currency. The exchange on London, which in June, 1914, was almost at par, was at 122.9 per cent. in December, 1915, 129.3 per cent. in December, 1916, 156.6 per cent. in December, 1917, 120.2 per cent. in December, 1918, 198.7 per cent. in December 1919, and 260 per cent. in June, 1920. If we reduced Italian prices in the same proportion as the lira is depreciated, we could see that the rise (in British £) of Italian prices is less than the rise of British prices. Fortunately, the rise in wholesale prices, on which Professors Bachi's index is based, is not wholly reflected in retail prices. Many prices are controlled, and others, as house rent, are fixed by law. If the cost of life had risen eightfold the social discount would have been even more full of danger.

The set-back in prices has manifested itself in Italy somewhat later than in Great Britain, the high water mark being reached in April instead of in March. The decrease is limited to textiles and minerals and metals, *i.e.*, to foreign imported goods, on the price of which the influence of decreasing maritime freights and of decreasing exchanges was the greatest. The rise was less in cereals and meat, other food and miscellaneous which are native goods.



## 59.

## ITALY

## THE ASSAULT ON BANKS AND A BANKING WEEK

*From our Correspondent*

Turin, July 31

This week may be called the banking week. Parliament has been busy with banking discussions, and newspapers were overflowing with banking articles. Nine-tenths of speeches and articles were mere rubbish, as may be easily expected from the technicalities of the matter and the widespread incompetence of speakers and leader-writers. The gist of the problem is this: the Italian banking evolution has been somewhat different from English and German ones; we have not banks of the pure classical species as you have in England, but also the banks of the German type are by no means exclusively dominant. At June 30, 1919, the sum total of deposits (saving and current account deposits) was 17,435 million lire, which were thus distributed among the various types of banking institutions:

	Lire
Issue banks (Bank of Italy, of Naples, and of Sicily).....	774,6
Ordinary banks (in the English sense).....	3,447,6
Popular banks.....	1,423,7
Other co-operative banks .....	1,237,3
Savings banks .....	5,589,2
Postal savings banks.....	4,223,7
Banks annexed to pawn-offices ( <i>Monti di Pietà</i> ) .....	457,4
Rural banks.....	281,9
	<hr/> 17,435,5

As you see, the distribution of deposits is very various and wholesome. The ordinary banks, of which the foremost are the Banca Commerciale, the Credito Italiano, the Banca Italiana di Sconto, and the Banco di Roma, do not absorb more than a fifth of the Italian deposits. The other four-fifths are distributed between co-operative banks (popular and

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59. August 7, 1920, pp. 227-228. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because: a) it is dated Turin; b) the argument was widely discussed in the same terms by Einaudi in *Il Corriere della Sera* in the period July-August 1920.

others), which cater for the medium-sized and little traders, enterprisers and agriculturists, rural banks which have their customers in the world of little farmers, savings banks (among whom may be counted powerful institutions with deposits amounting to hundreds of millions), which are public local institutions and make loans to public bodies and discount commercial paper of very high standing, and give loans on collaterals. There are finally the postal savings banks, which are opened by the State in every town – one may say in every hamlet – in Italy, and whose deposits are managed by the biggest Italian banking institution, very little known to the public, the Cassa di Depositi e Prestiti. The Cassa is a State bank, which is a sort of trustee of saving banks deposits and of the funds of other public institutions, and makes loans to provinces, municipalities, and public bodies, besides investing large sums in State Rentes and Exchequer bills.

The banking world in Italy is thus varied, and one may have very little fear that a good customer, whether private or public, may find himself cramped by a refusal of credit in consequence of a combination of banks. The co-operative and public banks are so predominant that even if the four big ordinary banks were united in a banking trust, credit could not be wanting to honest, independent men. The peculiar distribution of deposits has had another consequence: that the ordinary banks, and especially the big four, whose names I have above quoted, have had a keen competition to face in the discount of good mercantile papers and in loans for collaterals. The more so as in Italy lives, and vigorously lives, a number of private banks, which do not publish their accounts, and which have a well-tryed *clientèle*. Especially in Turin, the private banks have a well-earned and time-honoured standing. The big four were, almost by force, insensibly coerced to seek means for employing the funds they had at hand in operations different from the classical discount of commercial paper and loans on collaterals. They ventured on buying shares and debentures of joint-stock companies; they made loans for a long series of years to industrial and commercial companies and firms, giving thus fixed, and not only circulating, capital; they were underwriters to public and private issues. As in Germany, though not to the same extent, industry became intermixed with banking; and on the board of numerous industrial companies were sitting banking men. At the head of the big four are some of the very ablest business men of Italy; and they soon exercised an effective control over some of the biggest industrial Italian companies. This was an evolution which may have seemed natural, and would hardly have been noticed if

it were not for a counter-evolution which set in during the war. The banks controlled some industries; and the industrial leading men began to desire to control banks. Signori Perrone, the heads of a great engineering firm, after having acquired a preponderating interest in the Banca Italiana di Sconto, desired to interest themselves in the Banca Commerciale Italiana, and in a short time bought 200,000 shares out of a total of 520,000 shares issued. This event made other great captains of industry fear that, little by little, Signori Perrone may extend their control from the Banca Italiana di Sconto to other ordinary banks, and so monopolise the greatest part of the three billions and upward of deposits. A counter-move was made by Signor Agnelli, head of the Fiat, the well-known motor-car company, and by Signor Gualino, which sought to acquire control of Credito Italiano. The menaced boards of the two banks, Commerciale and Credito, took alarm, and after a long race in acquiring a majority of shares, they endeavoured by issue of new shares to assure to themselves and to their friends the independence from too big customers desiring to acquire control of the banks. At last a compromise was effected. Signori Perrone sold their shares, and two trusts were created, which are holding the majority of the shares of the two banks. The trustees are friends of the boards of the banks, and it is hoped that they will exercise their right of vote in the interest of the independence of the banks from their customers. This compromise was arrived at in March last, Premier Nitti and Minister of Industry Ferraris aiding to reach the result, which, to sum up, must be deemed useful to the wholesomeness and independence of the banking functions.

This almost forgotten story was revived with ununheard-of violence of language and of political passion in the past and present week. The Socialist papers took up the matter of the assault on banks as a means of discrediting all bourgeois institutions. Partisans of the present Premier, Signor Giolitti, see in the topic an excellent weapon for discrediting ex-Premier Nitti. Accusations of all sorts were made of bribery, corruption, German intrusions, hundreds of millions lire extorted during the various buying processes and issues of shares to little shareholders, &c. Amid a great confusion of words and looseness of ideas, the Chamber of Deputies voted the principle of an exhaustive inquiry into bank management and banking shares manipulations. We shall see if some good will come out of this so-called scandal.



## 60.

## ITALY

## FIGURES OF CAPITAL LEVY DECLARATIONS

*From our Correspondent*

Turin, August 14

The first figures are available of the number of tax-payers who have made the declaration of estate possessed at December 31, 1919, for the purpose of assessment of the extraordinary capital levy imposed by decrees of November 24, 1919, and April 22, 1920. The statistics relate only, as yet, to the number of the declarations filed by taxpayers and not to their amount. But they are interesting enough:

Region	Number of Declarations Filed		Proportion of Declarations Filed (No. 3) to 100 Inhabitants
	In the Capital City of Each Region	In Total Territory of the Region (No. 2 included)	
1	2	3	4
Liguria.....	11,394	20,483	1.79
Lombardy.....	27,282	25,730	1.54
Latium.....	14,953	19,073	1.45
Piedmont.....	18,100	49,490	1.41
Aemilia.....	6,905	33,711	1.23
Campania.....	13,594	37,429	1.09
Tuscany.....	8,896	25,933	0.94
Venetia.....	3,334	32,754	0.87
Marche.....	1,103	7,908	0.69
Apulia.....	1,693	14,698	0.67
Umbria.....	1,221	4,483	0.62
Sardinia.....	1,452	5,385	0.62
Sicilia.....	4,478	19,694	0.51
Calabria.....	676	6,930	0.45
Basilicata.....	230	2,068	0.42
Apurium.....	379	5,311	0.33
Totals.....	115,650	361,080	1.00

The declarations are evenly distributed over all Italy. At the head of the list (the scale is descending according to column 4) are the great manufac-

60. August 21, 1920, pp. 300-301. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because it is dated Turin.

turing and trading regions of Liguria, Lombardy, and Piedmont. Latium is third because of the great concentration of rich men in the capital, Rome. Aemilia occupies a high position as one of the most progressive agricultural regions. At the bottom are the poor regions of the South of Italy, and the two islands of Sicilia and Sardinia, with little or no industry. The wealth in Italy is not concentrated in one single city, as is seen by the column 2, which gives the figures for the capital cities of each region: Genoa (Liguria), Milan (Lombardy) Turin (Piedmont), Bonania (Aemilia), Naples (Campania), Florence (Tuscany), &c. In Latium, however, Rome absorbs nearly all the declarations. If you add to the 115,650 declarations of the capital cities of the regions another 66,000 declarations of other cities head of *provincia* (corresponding to French departments or English counties), you have a total of 181,650 *urban* against 179,430 *rural* declarations.

The number of declarations which ought to be made to the capital levy is by no means complete. The House of Deputies, in passing the Bill for the compulsory inscription of all stocks and shares and debentures – of which I will have more to say when it is passed by the Senate – has inserted in the Bill a clause in virtue of which an extension of time shall be given to taxpayers for filing a complete declaration as to bearer securities not previously declared. This is a sort of bill of indemnity given to reticent taxpayers to make up for their past reticence. The Government will have to fix the new date for new declarations. A great number of new declarations will also have to be made when the land has been valued at its true value at December 31, 1919. At present the valuation is made on an empirical basis, by multiplying by 325 the land tax paid to the Exchequer in 1916; with the consequence that many proprietors fell by this system under the exemption limit of 50,000 lire, and have not made any declaration at all. The land valuation will be a truly gigantic task, so that it may be justly said that the so-called capital levy will not be made at all at a given moment – say, December 31, 1919 – but will go on for many years to come.

Up to date nothing is known of declarations made in foreign States by Italians and foreigners liable to the levy. The foreigners are liable only for the part of their capital which is legally domiciled in Italy; while Italians are liable also for a part of the wealth acquired in foreign countries after August 1, 1914. But the difficulties of assessment will be even greater than for the wealth existing in Italy.

61.

ITALY

THE INVASION OF METAL AND ENGINEERING WORKS AND AN EXPERIMENT  
IN COMMUNISM

*From our Correspondent*

Turin, September 12

On Wednesday, September 1<sup>st</sup>, the metal and engineering workers occupied the workshops in which they were employed and started an experiment in Sovietism which will be perhaps of the utmost consequences to our country. This was not the first time that workshops were occupied by the men; early in the year the cotton mills of Mazzonis Brothers, Turin and Pralafera (Pinerolo), were similarly occupied, but a Government Commissary instantly stepped in, and the works were eventually returned to the proprietors. To-day we have not a single case; the whole of the metal and engineering industry of Italy has seen its works occupied; it is said that the workers implied in the strife are 500,000 or more. Another precedent may be found in the occupations of land, which were frequent in the past autumn all over "Campagna Romana" – the territory around Rome – in Sicily and in the south provinces. The land occupations were legalised by a decree, which prescribed the conditions under which the prefect (head of the province) can concede, even against the will of the land-owner, the land to labourer co-operatives. In principle, the land must be untilled or badly farmed; in fact, the labourers wish to have the best lands, or, at any rate, lands which can give good crops.

In the metal and engineering industry the question was primarily one of wages. In July last negotiations began, consequent upon a request by the F.I.O.M. (Italian Federation of Metal Workers) that the scale of wages, of promotions and kindred questions should be revised. The F.I.O.M. alleged that the increase of wages since 1914, said to be 250 per cent., had not kept pace with the increase in the cost of living, which

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61. September 18, 1920, pp. 438-439. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. Articles on the same argument, similarly treated, were written by Einaudi in *Il Corriere della Sera* in the period September-October 1920.



the municipal statistical labour offices of Milan, Turin, and Rome estimated to be 350 per cent. Wages in other industries were said to be higher than in the metal shops. The A.M.M.A. (Federation of Metal and Engineering Employers) replied that the increase of wages was abundantly equal to the increase of the cost of living; that the examples of higher wages quoted by the employees' federation were misleading, as they related to exceptionally qualified workers, and, by a review of facts and figures, endeavoured to prove that the industry was not in a condition to grant even the smallest concession, as that would spell ruin to most of the federated employers, who had to face the current prices of world competitors.

Upon this reply the negotiations were interrupted. The men did not go on strike; instead of striking the F.I.O.M. proclaimed *ostruzionismo*, that is "ca'canny". Usually obstructionism is a practice of individual workers. In Italy "ca'canny" had already been used by public employees in State railways, post, telegraphs and telephone, and several tax departments, and was legally justified by the employees, as they claimed to observe exactly regulations which are enacted for general guidance, but cannot be always observed too literally without undue loss of time. In private industry this was the first time that "canny" was officially proclaimed by unions as an industrial weapon. After 15 days the results were disastrous; the productivity of men sank to 50, to 25 and less per cent. Continuous bickerings resulted between men, foremen, and employers. On September 1<sup>st</sup> the director of Romeo Works ((Milan) requested that shops should be protected by public force, and dismissed some men. The F.I.O.M. instantly replied ordering the men to occupy the metal shops all over Italy. As the public force, excepting in the Romeo case and in two or three other cases, was absent, the invasion was peaceful, and the workers found themselves masters in the works. Truth is not easily found as to proportion of the employed which took part in the invasion. But it is probable that the great majority of the workers and a small minority of the foremen and administrative staff were among the invaders.

At this point the issue ceased to be one only of wages. The leaders of the F.I.O.M. apparently conceived the "ca'canny" practice, and the subsequent invasion, only as tactical moves towards attaining the end of higher wages; but the workers set to themselves higher aims. At Turin the F.I.A.T. motor-car shops were newly styled *Fiat-Soviet*. A Communist government of production, after the Russian fashion, is being attempted. In every shop a *consiglio di fabbrica*, a works soviet, is instituted, and the

workers claim to work for themselves only. A difficult task indeed. In vain they endeavoured to attract foremen and administrative staff; a small minority responded. A few members of the higher technical staff were captured, but after a few days they were obliged to release them. Another difficulty instantly presented itself in the supply of coal, oil, iron and steel, and other raw materials. The problem is being solved by the invasion of other shops, which produce goods necessary for production in the invaded ones. With the aid of State railway servants cars full of raw materials are being introduced in the workshops. But the end of the experiment is not distant. Already part of the shops work at a very low pressure; in others the end of raw materials is in sight. The problem of wages is also insoluble. Employers have not left in their offices any money, and naturally have refused to pay wages for the period during which they are expelled from their property. A few hot-heads among the invaders talk of invading banks. But the Government, it is hoped, will interfere, and put a stop to an adventure which is an open defiance of the laws of the land. The crisis will be hard to solve, as the A.M.M.A. proclaim its resolve not to recommence negotiations if the workers do not first leave the occupied shops. The workers are full of hope of the advent of universal Communism. They have entrenched themselves in the works. Instead of producing the usual products of industry they are forging arms and ammunition, and a Red guard has been formed to defend the works against the possible inroads of public force. The workers are subjected to military discipline, and every day they are called to military exercises in the shop yards. Civil war seems impending. In the meantime the Government seems absent. It has proclaimed its neutrality between the two belligerents, but this profession is hardly compatible with toleration of assault on private and public property, organisation of armed forces, &c. Perhaps all this tumult will end in a compromise or in a farce, and Signor Giolitti will gain new laurels as a skilful Fabius Cunctator. But the matter is too inflammable; the official Socialist party (156 members out of a total of 508 Deputies of the Lower House) has always been bent against the war in years past, and is the only organised Socialist party in Europe which is to-day uncompromisingly for Russia and Communism; the old guard of Socialism are discredited in face of young enthusiasts, and do not dare to oppose a strong stand against dangerous experiments. It is not, however, probable that the Communist experiment will be made this time. Italians are not apt to stretch things to their extremes. They are a compromising folk, somewhat after the manner of Britishers, though only

after a shower of high words and extravagant menaces. Above all, we are a nation of small land-owners, in which the propertied classes outnumber the true proletariat. They need only a strong Government, strong in ideas and leadership to put matters right.

## 62.

## ITALY

## FOREIGN EXCHANGES AND FOREIGN TRADE

*From our Correspondent*

Turin, October 8

At the time of writing foreign exchanges are soaring up, so that they have already reached the highest monthly average hitherto touched. I give below, for the sake of comparison, a statement of the said monthly averages, as calculated in the preface to a new French edition of the well-known study by Mr. Stringher, director-general of the Bank of Italy, on "Note Issues and Money Market in Italy":

	Switzerland	Paris	London	New York
1914, July.....	100.76	100.93	25.31	5.17
" December.....	101.60	103.31	25.88	5.30
1915, ".....	123.56	112.23	30.97	6.57
1916, ".....	135.18	117.20	32.50	6.85
1917, ".....	189.90	144.87	39.56	8.29
1918, ".....	130.00	116.25	30.37	6.34
1919, ".....	241.67	121.92	50.08	13.07
1920, January.....	251.34	120.51	51.60	13.99
" February.....	296.14	128.89	61.71	18.21
" March.....	321.24	136.21	70.55	19.03
" April.....	410.46	142.40	90.42	22.94
" May.....	351.59	133.65	76.99	19.76
" June.....	308.98	133.64	67.14	16.89
" July.....	305.50	141.12	67.30	18.17
" October 2.....	387.50	161.50	84.15	24.25
" October 7.....	400.00	170.00	89.00	25.00

62. October 16, 1920, pp. 590-591. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because of a section of the autographed manuscript, without title and dated October 8, 1920, is in the Einaudi archives. The published article is also dated Turin.



As the highest level was touched in April, 1920, it is easily seen that October threatens to break all records. Speculations are rife as to the causes of the great rise; and in banking and trade circles it is said that the political occurrences, mainly the fear that the last dispute in the iron and steel industry, with the forced surrender of employers, will be only the first of a series of bitter disputes, which may end in the overthrow of the present industrial system. It is also said that foreign banks and trading firms are reducing or closing credits opened to Italian customers; so that it is increasingly difficult for our industry to pay debts which are falling due, and it will be increasingly difficult to obtain new credits for purchasing coal, wool, cotton, iron, and other raw materials of industry.

Time alone will show if these fears are justified, or if the good sense of the Italian people will not prevail. The latest available figures of foreign trade are those for the first six months, of 1920, and they compare favourably with previous periods:

(In Millions of Lire)			
	Imports	Exports	Excess of Imports Over Exports
1918, first six months .....	7,907.2	1,931.9	5,975.3
"    second    "    .....	8,131.4	1,412.8	6,718.6
1919, first        "    .....	8,841.7	1,796.0	7,045.7
"    second    "    .....	7,674.9	3,392.6	4,282.3
1920, first        "    .....	8,413.8	3,889.6	4,524.2

The figures are not exactly comparable, as those for 1918 and 1919 are at 1918 values, while those for 1920 are at 1919 values; but it is clear that imports are stationary, while exports are increasing. If we examine details of imports we see that the greatest decreases in the first half of 1920 against the same period in 1919 are in animals and animal products, from 1,329.1 to 554.3 millions lire (−774.8), and minerals, metals, and metal products, from 1,335.5 to 1,015.9 millions lire (−319.6). The first fact is reassuring, as it may be explained by the gradual increase of domestic animal stock, which during the war was greatly depleted. The second fact is perhaps attributable to decreased activity of war industries. Against these principal decreases we may note increases from 333.2 to 498.2 (+165.0) in olive and other edible oils and alcohols, from 352.5 to 593.4 (+240.9) in wool and woollens, from 51.4 to 168.8 (+117.4) in timber, from 153.2 to 249.3 (+96.1) in silk, from 713.7 to 785.6 (+71.9) in coal, earthenware, &c., from 461.0 to 521.2 (+60.2) in hides, from 44.8 to 101.9 (+57.1) in dyes and colouring and tanning materials, from 70.6 to 108.0 (+37.4) in hemp, flax, jute, from 44.1 to 107.7 (+63.6) in cars, motor-cars, &c.

Among the exports there are no decreases worthy of notice. The principal increases are as follows: from 369.2 to 828.5 (+ 459.3) in silk; from 158.8 to 428.8 (+ 270) in hemp, flax, jute, and their worked products; from 324.7 to 503.0 (+ 178.3) in macaroni, vegetables, &c.; from 413.9 to 581.9 (+ 168) in cotton goods; from 85.4 to 227.9 (+ 142.5) in chemical products; from 12.7 to 141.0 (+ 128.3) in motor-cars and other vehicles; from 58.9 to 164.2 (+ 105.2) in metals and metal products. The increases in exports are general, and in some cases remarkable. If only we could have a year of continuous work, the balance of international commerce might return to a normal condition, and, so far as the depreciation, or, rather, the unstable value, of the lira depends on excess of imports over exports, the foreign exchanges would be stabilised.

## 63.

### ITALY

#### INDUSTRIAL UNCERTAINTY – A POSSIBLE SOCIALIST SPLIT – YIELD OF TAXES

*From our Correspondent*

Turin, October 22

The first effects of the occupation of works are making themselves felt. The Director-General of Combustibles – a new official, born during the war – has recently sent a notice to newspapers to the effect that a part of his coal stocks will be put at the disposal of industry. The notice was partly prompted by the British embargo following the miners' strike, but was also caused by the decline in the trade imports of coal. In the two weeks ending October 17<sup>th</sup> only 8,000 tons of coal were imported into Italy on account of industry; of the 350,000 tons which Italy used to import monthly from Great Britain over half was on account of trade, and half on Government account; during the month of October private traders will import only 30,000 tons. A feeling of uncertainty as to the future of industry is spreading among employers, and they dare not import raw materials

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63. October 30, 1920, p. 782. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. The treatment of the argument bears strong similarities with an article published in *Il Corriere della Sera* (October 27, 1920) entitled "Controllo operaio ed organizzazione della dittatura sindacale".

from foreign countries when the exchange outlook is uncertain, and the exact purport of workers' control over industry is not known. Signor Giolitti has, indeed, said to a foreign correspondent that "control" has not the same meaning in Italian as in the English language. Control is not predominance of workers over employers, but simply "verification" of the results of the balance-sheets, somewhat on the line of "auditing" the books and accounts at the end of the year. But the workers' leaders are not of the same mind, and aim much higher; they tend towards a true "control", as a first step of a proximate nationalisation of industry. Their position is, however, somewhat contradictory; for when Signor Agnelli tendered his resignation of the post of chairman and general manager of the Fiat works, and advanced proposals for the transformation of this gigantic enterprise into a working men's co-operative society, the men's leaders recoiled and took time to reply. They say they fear the men are unprepared for such a task; they fear not being able to obtain credit and preserve useful trade connections. But if they fear failure in a single case, what of nationalisation of the whole industry?

The social and political movement may be said to have as its pivot the future attitude of the Confederation of Labour and of the Socialist party. The evolutionist section of the Socialist party held its meetings at Reggio Emilia last week. They were strong in their determination not to sacrifice to Lenin's orders the old guard of the party; so that a split of Socialism into two or three sections – communist after the Moscow fashion, centrist, and moderate – may be foretold for the end of the year, when the Socialist party will have their annual session. The best men of the labour world, the leaders of the Labour Confederation, are reduced to impotence by the contradiction between the sane, business-like, progressive line of action they would follow in the interest of the working classes, and the extravagant politics of continuous strikes and agitation to which they commit themselves from fear of the extremist denunciations in the party Press.

That industry may again be put on her legs is in the direct interest of the State, for the recovery of the newly imposed taxes. These new taxes are giving good results. The capital tax, of which the first instalment was due on October 18<sup>th</sup> – in Italy all direct taxes are paid in six instalments distributed evenly over the whole year – is giving 354 million lire a year on the provisional assessment. When the assessment becomes definitive, the product will reach 700 million, and perhaps 1,000 million lire a year for a period of 10-20 years, according as the wealth of the taxpayer is mainly composed of stocks and shares or of land and houses. But what of the taxes on



industry – income-tax and excess profits tax, which Parliament decided should go to 100 per cent. of war profits – if industry is reduced to a standstill by labour troubles? War profits were mostly invested in new machinery and plants. Taxpayers cannot pay to the Exchequer taxes in kind, they must give money; and money will not be forth-coming if employers cannot set themselves calmly to work.

## 64.

## ITALY

## RISING PRICES AND EXCHANGES: FALLING SHARE QUOTATIONS

*From our Correspondent*

Turin, November 5

Professor Bachi publishes in the *Economista* his interesting index numbers for commodity prices and share quotations at the end of September. As the basis 100 of your and Bachi's number indexes is the same, viz., 1904-1905, I place in the last column the *Economist* percentage figure for comparison:

	Cereals and Meat	Other Food Product	Textiles	Minerals and Metals	Miscellaneous	General Index	
						Italian	British
March, 1920 .....	458.5	610.4	1156.6	1205.2	576.0	780.0	379.6
May .....	530.2	728.2	1012.8	1317.3	619.4	830.3	372.7
June .....	535.0	746.7	895.3	1109.9	628.4	774.7	356.7
July .....	521.9	742.7	915.4	1093.0	639.5	772.4	358.0
August .....	534.8	745.6	957.3	1157.9	637.0	795.9	352.0
September .....	551.7	759.7	1009.0	1257.8	637.9	832.2	347.5

Italian prices again rose in September, and surpassed the May record. All the groups contribute to the rise, but minerals and metals are at the top of the ladder; textiles are good seconds. An explanation

64. November 13, 1920, pp. 866-867. The article, unsigned, is published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. The treatment of the argument bears similarities with two of Einaudi's articles in *Il Corriere della Sera* (November 11 and 13, 1920) entitled respectively "Mezza misura inaccettabile" and "Finanza debole ed empirica. I nuovi provvedimenti tributari".

may partly be found in the following figures of circulation and foreign exchanges:

	Total Circulation (Commercial, State and State Notes)	Percentage Exchanges on	
		Switzerland	London
	Millions Lire		
June, 1914.....	2.698	106.6	100.1
December, 1919.....	18.552	242.4	198.7
March, 1920.....	18.465	321.2	279.7
April, 1920.....	18.964	410.5	358.4
May, 1920.....	19.397	352.8	304.9
June, 1920.....	20.087	302.2	261.8
July, 1920.....	—	319.4	277.8
August, 1920.....	20.225	356.8	306.1
September, 1920.....	20.225	385.8	332.5

The rise in prices appears to follow, at a certain distance of time, the fluctuations of the exchanges. As in October these continued to rise, we may expect a new corresponding rise in the October index of commodity prices. The note circulation keeps on increasing. The figure for December, 1919, divided in 12,901 millions lire for State account and 5,651 for commerce accounts, while the corresponding figures for September, 1920, are 12,794 and note circulation keeps on increasing. The figure for the increase of the note issues was not the State's but commerce's requirements. The statement is, however, somewhat misleading, as under the cover of commercial circulation are put loans on 5 per Cent. Consols and discounts of Treasury bills. Loans and discounts are made to private parties, but substantially are of the same nature as your banking credits for subscriptions to State loans. Part of the subscriptions to the last State loan and to Exchequer bills are thus financed by creation of paper.

In Germany, as the exchanges go up, so the prices of shares and stocks also rise, shares of industrial concerns being capitalised not on the basis of dividends, but on the valuation of assets and goodwill in a depreciating currency. The same phenomenon should hold good in Italy, whereas, in fact, the opposite has happened. As the foreign exchanges went up and the lira was depreciating, shares, instead of rising, began to tumble. Between March and September the lira, as expressed by the London exchange, lost from 35 to 30 per cent. of its nominal value. The course of quotations of 113 leading shares was as follows:

	March	June	September
Banks.....	104.26	91.09	88.94
Railways.....	103.85	94.37	74.04
Land Transports.....	102.95	95.41	81.40
Navigation.....	110.88	98.49	80.45
Cotton.....	137.67	129.47	112.52
Jute.....	161.00	158.40	132.00
Wool.....	118.86	116.00	99.14
Hemp.....	134.00	137.17	112.76
Silk.....	128.37	127.00	114.47
Mines.....	113.56	100.51	74.43
Iron and Steel.....	105.51	86.50	59.48
Engineering.....	101.98	86.71	68.09
Motor cars.....	111.07	91.31	65.03
Electricity.....	106.37	93.81	83.48
Chemical.....	106.39	103.79	83.63
Sugar.....	119.55	111.92	88.45
Various food.....	104.85	98.90	82.59
Waterworks.....	98.91	96.81	87.52
Building and house coals.....	105.78	130.30	93.98
Miscellaneous.....	126.88	117.92	119.87
General index.....	106.97	94.07	80.33

As the basis 100 in this table was the quotation of December, 1919, it is clear that these leading shares had lost in nine months nearly 20 per cent. of their value at the end of 1919. Textiles alone are quoted higher. The causes of the bad conditions of the Italian bourses are many: 1) The fear of the coming compulsory inscription of all bearer stocks and shares; 2) the general impression that inscribed shares will be much more difficult to sell and to give as collaterals for loans; 3) the selling by possessors who did not include some bearer share or stock in their declaration for the capital tax; 4) the uncertainty concerning the solution of frequent momentous problems – the huge deficit in the State budget, unwillingness to put an end to the bread subsidy, the advent of workers' control on industry; 5) confiscation of war profits and the enormous payments to be made in cash at a moment when companies have not the liquid means to pay, and the banks are restricting credit. All these factors are pointing to liquidation, restriction of the spirit of enterprise, and inaction of speculators. Quotations are therefore dwindling, even in the face of a depreciating lira.



## 65.

## ITALY

EXCHANGES IMPROVED – THE PEACE OF RAPALLO – MUNICIPAL ELECTIONS –  
THE BREAD SUBSIDY*From our Correspondent*

Turin, November 19

The foreign exchanges, which had boomed to 100.50 for London, 175 for Paris, 450 for Switzerland,  $30\frac{1}{4}$  for the American dollar, have undergone a favourable change, and close to-day respectively at 92.50 for London, 162 for Paris, 410 for Switzerland, and  $26\frac{3}{4}$  for New York.

The signature of the Treaty of Rapallo has greatly cleared the political horizon. The Government has obtained an overwhelming vote of confidence from the House of Deputies. The last municipal elections have not gone so well for the Communist party as they anticipated. Their progress was great from the last pre-war elections, for, instead of 200 municipal and four provincial councils, they are the masters in 2,000 and 25 councils respectively. But their boasted note of capturing 5,000 municipal councils out of 8,500 was upset by the electorate. They hold the mandate for 27 per cent. of municipalities, which is a small but significant regression from the high-water mark of 30.7 per cent. seats conquered at the political elections of November, 1919. Specially notable was the fact that, of the great cities, only Milan and Bologna, which they possessed from 1914, fell to their lot. All the other great cities, Rome, Naples, Palermo, Venice, Florence, Genoa, were held by constitutional parties. Even Turin, the stronghold of Italian extreme Leninism, was saved from their domination.

The Government has at last introduced a Bill for the reduction of bread subsidy. According to Government declarations, the consumption of wheat and other cereals will in the agricultural year 1920-1921 be 40 million quintals – excluding the producing population, who feed themselves on their own products. Of these, 12 millions will be obtained at

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65. November 27, 1920, p. 944. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

home by requisitions at a mean price of 110 lire per quintal, and a total expenditure of 1,320 million lire. The other 28 million quintals we shall be obliged to import from foreign countries at a total cost of 7.980 million lire, assuming a price of 10.80 dollars per quintal at origin and a dollar exchange of 28 lire. The total cost to the Government will thus be 9,300 million lire. The selling price of wheat has hitherto been 62 lire per quintal, involving a total sum amounting only to 2,480 million lire, so that a net loss to the Exchequer of 6,820 million lire is in prospect. The Government do not propose to wipe off at a single stroke this stupendous loss. They content themselves with raising the selling price to the level of the requisition price. The Government will sell the wheat at the same price at which they take it compulsorily from Italian cereal producers.

The following table describes the change:

	Present Price	Average Price of Requisition and Average Proposed Selling Price in the	
		1 <sup>st</sup> Quarter 1921	2 <sup>nd</sup> Quarter 1921
Soft wheat .....	60	110	137.50
Hard wheat.....	70	126.50	159.50
Rye.....	60	88	104.50
Barley.....	53	88	104.50
Maize.....	60	88	94.50

They hope to be able to sell bread, on this basis, in the first part of 1921 at a price varying from 1.30 to 1.40 lire per kilogram, instead of the present average price of 1 lira. The rise in the selling price will yield 2,726 million lire, and so reduce the loss from 6,820 to 4,096 million lire. The problem is only touched – not solved, and the expediency of exasperating – in words and in propaganda – the Socialist for a one-third solution is doubtful. The Government pretend, it is true, to cover another 1,920 million lire of the bread loss by means of several new and increased taxes. But the pretence is not to the point, as all the yield of new taxes will be necessary to cover the ordinary deficit in the Budget. Even if the bread did not cost a farthing to the Exchequer, the ordinary revenue is not at a level with ordinary expenditure. Some of the new taxes are very bad and unequally distributed. However, the step taken by Government is in a right direction and we can still hope that Parliament will better the Government plan.

## 66.

## ITALY

THE SOCIALIST CONGRESS – DEFEAT OF THE COMMUNISTS –  
LABOUR AND EMIGRATION FIGURES*From our Correspondent*

Turin, January 22

The debates at the Socialist Congress of Leghorn were watched with the greatest attention by all parties. The debates closed with a vote on the motion for the adhesion to the Third (Moscow) Communist International and to the Lenin's 21 points. Notwithstanding two impassioned speeches by Mr Kabakrieff, the Moscow delegate, the Communists were defeated. The result of the debate will be that the 116 Socialist M.P.'s will split into two parties, of which the extreme Communists will number 20 members at the utmost, with Bombacci as the leader in Parliament and the Turinese group of young men in the *Ordine Nuovo* as writers and propagandists. They will try to conquer in the coming months the Labour Unions, and gain a footing in the General Confederation of Labour. But the fulfilment of their ambitions is not easy.

Professor Giorgio Mortara has published a volume of *Prospettive economiche*, 1921, a book somewhat on the line of *Business Prospects* and Babson Forecasts. But Mortara's book is much more guarded and scientific; a very useful volume on past conditions of Italy before and during the war, with a review of future possibilities. The book, after a general introduction, reviews wheat, wine, fruit, olive oil, silk, cotton, hemp, wool, coal, iron industries and trade, labour, emigration, transport, taxes, public finance, and money. Some figures from labour and emigration chapters will be interesting at a moment in which, thanks to the Socialist Congress, labour problems are to the fore. The number of casualties owing to the war and during demobilisation was 650,000; the extra deaths caused by epidemics of 1918-1919 were from 200,000 to 300,000. Invalids and disabled may be calculated at 300,000 or 400,000 men. Even deducting from these

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66. January 29, 1921, p. 171. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



1,250,000 losses, some 150,000 which would have been lost in the normal ways, there remains a net loss in man-power of over one million men. But the loss was partly offset by emigrants repatriated from 1914 to 1919, and by the great decrease of emigration during the same period; and it should be added that the young generations, born from 1900 to 1905, have not suffered any loss from war and emigration, and their contingent is therefore greater than usual. Summing up all these circumstances, Italy possesses to-day, perhaps, a working population greater than in 1914. It will be somewhat difficult to employ all this man-power in the country, and some doubts may be entertained upon the probability that the emigration currents may be resumed at an early date. Before the war, in the five-year period 1909-1913, emigrants numbered 650,000 yearly, from which, deducting 500,000 returned, a loss resulted of 150,000. But as the annual net increase of population (births, less deaths) was 430,000, the net increase was 280,000. The following table gives the number of emigrants from 1909 to 1920 (in thousands):

	To European or Mediterranean Countries	To Trans-Oceanic Countries	Total
1909.....	226	399	625
1910.....	249	403	652
1911.....	271	263	534
1912.....	308	403	711
1913.....	313	560	873
1914.....	246	233	479
1915.....	79	67	146
1916.....	68	74	142
1917.....	33	13	46
1918.....	24	4	28
1919.....	136	94	230
1920 (first nine months) .....	159	305	464

While the Central Empires and Switzerland absorbed two-thirds of European emigration, after the war the percentage was reduced to 3 per cent. for the former and to 14 per cent. for the latter country. The greatest number of European emigrants (22 per cent.) goes to-day to France; of the transoceanic emigrants 80 per cent. goes to the United States and Canada, 14 per cent. to Argentina, and 5 per cent. to Brazil.

67.

## ITALY

WORKMEN'S CONTROL OF INDUSTRY AND THE  
GOVERNMENT'S DRAFT REPORT*From our Correspondent*

Rome, February 5

The debate on the bread subsidy draws slowly to an end in the Chamber of Deputies. There are rumours that a compromise has been arrived at between the Socialist party and the Government to put an end to the obstructionist manœuvres which have hampered until now the passing of the Bill. In the meantime, the attention of trade and industry and of the labour world had been attracted by the draft of the Bill on labour control prepared by Signor Giolitti and submitted to industry and labour councils. It will be recalled that at the end of the revolutionary movement for the occupation of shops in September last, Signor Giolitti gave his promise that the Government would lay on the table a Bill for giving to workers a sort of control over industry. As time passed the promise was forgotten by many employers, so that they were struck with surprise when on January 22<sup>nd</sup> the Government submitted the draft of the Bill on control to the Council of Industry. The draft read as follows: For every class of industry, excepting State-owned enterprises, new enterprises for the first four years, and enterprises with less than 60 men employed, there is created a workmen's control. The control has for its aim 1) to make the men acquainted with industrial conditions; 2) to better the technical education and the moral and economic conditions of men; 3) to ensure the execution of social laws; 4) to improve the methods of production and to make production more economical; 5) to attain social peace between employers and employed.

The means suggested of attaining these desirable ends are the creation

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67. February 12, 1921, pp. 282-283. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because the treatment of the argument bears strong similarities with two of Einaudi's articles in *Il Corriere della Sera* (January 25 and 26) entitled respectively "L'ostruzionismo sul pane" and "Il controllo delle industrie nel progetto governativo".

of a central control committee of nine members, of which six are to be elected, by national proportional representation, by the workmen, and three by overseers, clerks, and technical staff employed in a given class of industrial enterprises. There will be many control committees, but only one for each class of industrial enterprises. Presumably all committees will sit at Rome. Each committee will delegate its control functions to two or more workmen in each workshop. These local delegates will have the right to require employers to make known to them 1) the methods of buying and the price of raw materials of industry; 2) the costs of production; 3) administrative methods; 4) production methods, excepting only industrial secrets; 5) workmen's wages; 6) the subscribed and paid-up capital of the firm or company; 7) industrial profits; 8) the manner in which social laws and by-laws are carried out, and details as to methods of recruiting and dismissing workmen. When the Central Control Committee debates upon the reports of their local delegates, two delegates of the employers and one delegate of the High Council of Labour have the right to attend but not to vote. The employers will have the right to elect a committee of nine members, to which the Control Committee will make proposals for enforcing regulations deemed necessary to ensure the achievement of the aims described above. When necessary, a joint meeting of Control Committee and Employers Committee will be convened, under the presidency of a delegate of the High Council of Labour.

The draft was somewhat loosely worded. The Council of Industry, to which the draft was first submitted, criticised severely numbers 2, 3 and 4 of the catalogue of information which the local delegates had the right to demand. These points appeared to give to workmen the right to investigate the most secret affairs of the firm. Employers objected to the possibility that a new employee, without attachment to or interest in the enterprise, might acquire information which would be very interesting to competitors.

The High Council of Labour, which is composed equally of employers and employed, and is the official adviser of Government and Parliament in matters of social legislation, was then given the opportunity of advising on the control draft. After a lengthy debate, the Council ended by changing the Government proposals in many respects.

The control committees are to be instituted in the first instance only in the steel and iron, textiles, chemicals, electrical industry, land transportation, navigation and mines. Other industries may be successively subjected to control by royal decree, upon the advice of the High Council of Labour. Thus an experimental system is introduced.



The central control committees will be elected, not by all workmen and employed, but by the workshops committees which exist already, and have duties relating to labour, hours, wages, and other differences arising between employers and employed. The Central Committee will then delegate in each workshop two or more men upon a list of six members presented by workshops committees. These local delegates will not have the right to know all the things enumerated in the Government draft, but only to require, from time to time, those data which the Central Committee may desire to know on administrative and technical methods, total production in the country, costs of production, capital employed, profits obtained, and execution of social laws. The delegates will make the requests for the data, and the employers must give them. The data to be given will relate, in the main, only to past years. They are to be kept secret. The Central Committee will make yearly reports on trade and industrial conditions, on the workmen's status, on raw material statistics, and make proposals for bettering industry and workmen's conditions.

The employers will elect an industrial council of nine members, which will give advice on the proposals of the Control Committee. A joint council composed of the nine members of the Control Committee, the nine members of the Industrial Council, and of five umpires nominated by the High Council of Labour, the Central Co-operative Committee, and the Union of the Chambers of Commerce, will take resolutions on the advice of the two parties.

Even as amended, the draft Bill is apt to give the workmen a right to put hindrances in the way of free conduct of industrial enterprises. The High Council of Labour has done good work in eliminating much of the power of espionage which the Government Bill gave to casual delegates. There remains only a power of obtaining statistics and various interesting information. So far, so good. It will be very interesting to know what use the workmen will make of the right of inquiry thus given them.

68.

## ITALY

## BREAD SUBSIDY – RENT RESTRICTIONS

*From our Correspondent*

Rome, February 20

The lengthy debate on the bread subsidy is drawing to its end. Tuesday next, February 22<sup>nd</sup>, the last sections of the Bill will pass the Lower House, and then the Bill will be dealt with immediately in the Upper Chamber, so that the Bill will probably become law before March. On the basis of the sections already voted, and which cannot be modified by remaining sections, the bread subsidy is not abolished, but only greatly limited in its bad effects on the State budget. From April 1, 1921, the State will sell cereals to local consortiums, which are the intermediary agents between the State and the bread-sellers, on the basis of the internal price which the State pays for the same cereals to producers. The difference between the present and the future situation is, in short, as follows: at present the State buys home-produced wheat at about 130 lire per metric quintal, and will pay about 160 lire from August 1, 1921, and sells the very same wheat at 60 lire to local consortiums. In addition, as the home-produced wheat is not sufficient, the Government is buying some 35 million quintals of foreign wheat at a price from 300 lire in past months and about 220 lire at present, which is sold at the same ridiculous price of 60 lire to local consortiums.

In future the selling price to consortiums will not be fixed, but will be variable and always equal to the price at which the State buys the wheat or other cereals from home producers, about 130 lire from April 1<sup>st</sup> to August 1, 1921, and 160 lire from August 1<sup>st</sup> onwards. The loss to the State Exchequer will be greatly reduced, and will be equal only to the difference between 160 lire and the buying price of the 35 million quintals of imported foreign wheat. If the foreign price should remain at 220 lire per quintal, the loss will be about 2,000 million lire instead of 6,000 million lire, as at present, and the loss will even disappear if foreign exchange should improve.

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68. February 26, 1921, pp. 472-473. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because the treatment of the argument bears strong similarities with Einaudi's article in *Il Corriere della Sera* (February 16) entitled "Un passo avanti".

If the American dollar should decline from 28 lire to 18 lire or 20 lire, the price of foreign wheat would also be reduced by a third and the bread subsidy will disappear. This is the hope of the Government, and surely the disappearance of this huge State loss will tend towards improving foreign exchanges, if other counter-balancing influences do not interfere.

The Socialist obstructionism has had, however, an important effect: the bread is to be sold at a mean price sufficient to cover the price paid to internal cereal producers, but all bread is not to be sold at the same price. There will be two shapes of loaf: a big and a little loaf. The big loaf will be sold at a lower rate than the little loaf, and the weighted mean of the two prices will cover the cost of the internal produced wheat. This will be a somewhat complicated affair, which will be even more complicated by the fact that the relations between two prices will vary in every city and town and village, so that the profit obtained in the locality where the use of the little loaf predominates may cover the loss suffered in the localities where the population favours the big loaf. The members for Southern constituencies have been appeased only with this complicated arrangement.

The passing of the Bill is surely a great step in the right direction; but we must hope that an improvement of foreign exchanges will permit the last vestiges of governmental interference to be abolished.

While the House of Deputies is occupied in the bread subsidy question, the Senate is debating the problem of rent restriction. During the war various legal enactments have interfered in Italy, as in all other countries, with the freedom of fixing house rents. The State originally prohibited all increase of rents until two months after the peace. But as the legal day of the peace was an uncertain date, and was not fixed until the middle of 1920, a royal decree of April 18, 1920, introduced new regulations. Houses or parts of houses were divided into four classes: 1) Houses of an annual rent higher than 6,000 lire at Rome and 4,000 lire in other great cities of over 200,000 inhabitants, &c.; 2) rents from 3,000 lire to 6,000 lire at Rome, and from 2,400 lire to 4,000 lire in other cities; 3) rents from 1,500 lire to 3,000 lire at Rome and from 1,000 lire to 2,400 lire in other cities; and 4) all lower rented houses. Rises of 40, 25, 15, and 10 per cent. on the rent level at April 18, 1920, were respectively allowed for the four classes for the period from November 1, 1920, to June 30, 1921. At July 1, 1921, the first class was to be freed from regulation. For the second and third class the date of freedom was July 1, 1922, and for the fourth class July 1, 1923. When the royal decree was laid on the table of the Senate house occupiers protested against the freedom of house proprietors of raising rents inordinately after the named dates. They urged that new houses were not built, and that the cost of building was fivefold that of pre-war times; that the rents, when



made free, will rise so much that great discontent will spread all over Italy. The Bill as amended by the Senate has therefore fixed July 1, 1924, as the uniform date for giving complete freedom to all classes of houses, excepting houses rented for industrial, commercial, and professional purposes. The proprietors will be compensated for the prolongation of the period of restriction as regards premises used for industrial, commercial, or professional purposes; rents, instead of at July 1, 1921, will be made free at July 1, 1922; and for the intervening year tribunals will be set up in every locality to fix the just rent between proprietor and occupier. New houses built after March 28, 1919, are not subject to any rent restriction. This is an inducement to build new houses.

## 69.

## ITALY

## SEVEN MONTHS' REVENUE – THE CHIEF TAXES

*From our Correspondent*

Turin, March 12

The revenue results of the first seven months of the financial year (from July 1, 1920, to January 31, 1921) are gratifying, as the following figures (in millions of lire) show:

	1919-20	1920-21	Increase
Direct income taxes .....	1,123.3	1,692.0	+ 568.7
Stamp duties .....	377.1	733.7	+ 356.6
Registration & succession duties .....	373.6	446.6	+ 73.0
Excise, customs, and other consumption taxes .....	642.3	1,009.8	+ 367.5
Industrial monopolies (tobacco, salt, &c.)	980.1	1,552.5	+ 572.4
Lottery .....	56.6	77.5	+ 20.9
Commercial monopolies (coffee, ivory) ...	180.5	261.4	+ 80.9
	<u>3,733.5</u>	<u>5,773.5</u>	<u>+ 2,040.0</u>

Apart from the income-taxes, the increase is the highest in the industrial monopolies. Tobacco has risen from 837.9 to 1,364.0 millions lire, and the matches monopoly from 63.8 to 99.3 millions lire. Notwithstanding heavy increases of prices, the returned soldier has not abandoned the smoking ha-

69. March 26, 1921, pp. 647-8. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

bit contracted in the trenches. The increased receipts from stamp duties is the proof of the continuance during the period considered of a great commercial activity. Perhaps the coming months will not be so fruitful for the public exchequer. In the Excise and Customs duties the net increase is the combined result of a great increase in the Excise duties (+ 174.0), and the new tax on wine (+ 263.0), and of various decreases.

The most interesting item of public revenue, and one which is undergoing the most thorough transformation, is the first direct income-taxes. A special publication of the Director of Taxes gives some useful details, referring to the years 1919 and 1920. The total yield of all taxes on income in the last pre-war year was 540 millions lire. In 1919 there was inscribed in the tax-payers' rolls a sum of 1,801.5 millions; in 1920, 3,406.1 millions, exclusive of some hundred millions lire which are not entered in the rolls, but are paid directly into the exchequer; as, for instance, the income-tax on salaries of public servants.

This huge sum of 3,406.1 millions lire, which is between six and sevenfold the pre-war figure, may be said to fall into two classes, the extraordinary and the ordinary taxes. Among the extraordinary taxes class we must include the following: 1) The war profit tax, with a yield of 944.7 millions lire in 1919, and 1,413.4 in 1920. Owing to the nature of the case, as the taxing period was closed at June 30, 1920, the yield will rapidly fall when the arrears are made up. 2) The war increase of capital tax, simply an addition to the war profit tax. The yield was nil in 1919, and 545.2 in 1920, the first year of her application. The taxing period closes at June 30, 1920. The yield in this case will probably increase in 1921 and 1922. 3) The capital or wealth extraordinary tax: This is the much-talked-of capital levy. It is in principle a one-time tax, on wealth possessed at January 1, 1920, but for convenience it was made payable in 20 or 10 instalments, according as land and houses were entered for more or less than 40 per cent. in the total wealth. The capital tax was inscribed in the 1920 rolls for a sum of 354.6 millions lire, but only 225,009 out of a total of 361,080 taxpayers' returns were entered, and many other returns, new or supplementary, are expected when the law compelling inscription of bearer shares, stocks, and bonds begins to bear fruit. For at least the first ten years the capital tax will certainly yield some 1,000 millions lire a year. 4) Among the minor extraordinary taxes may be mentioned the tax on incomes above 10,000 lire, which in 1921 will be doubled; the tax on dividends of bearer securities, which is 15 per cent. on the annual dividends, and will cease to operate when all securities are inscribed, the special tax on joint-stock, limited and other commercial and industrial companies' directors and managers, &c. To the ordinary taxes group belong the three old taxes on the land, houses,

and other incomes. The land income-tax yielded 127.8 millions lire in 1920, against 127.9 in 1919. One must remember, however, that land income is the favourite object of taxation of provinces and municipalities, which in 1920 taxed it to the extent of 323.1 millions lire. Notwithstanding the existence of these burdens, land is capable of giving much more to the national exchequer. The house income-tax yielded 168.7 millions lire in 1919, and 177.7 millions in 1920. The product of this tax will also increase when the present rent-fixing legislation ceases. The receipts from the "other income" tax increased from 464.2 millions lire in 1919 to 622.7 in 1920.

## 70.

## ITALY

## FOREIGN EXCHANGES – FOREIGN TRADE – PRICES

*From our Correspondent*

Rome, March 24

The feature of the week has been the rapid variations of the lira. The pound sterling, which had closed at Rome at 106.10 on March 12<sup>th</sup>, gradually improved to 95 on the 19<sup>th</sup>, but on the 21<sup>st</sup> was higher at 97.50, only to rise further to 101.75 on the 22<sup>nd</sup>, and to drop to 98.75 on the 23<sup>rd</sup>. Many speculations are aroused by these vagaries of the lira, but the soberest opinion, while recognising that the economic and financial situation is improving, does not expect an abrupt fall in the quotations. The slower the betterment the more solid it will be.

The figures of the foreign trade for 1920 have been recently published (millions of lire):

	Imports	Exports	Excess of Imports over Exports	Per Cent. of Exports on Imports
1913.....	3,645.2	2,511.6	1,134.0	68.9
1914.....	2,923.3	2,210.4	712.9	75.6
1915.....	4,703.5	2,533.5	2,170.1	53.8
1916.....	8,390.2	3,088.2	5,302.0	36.8
1917.....	13,991.2	3,308.5	10,682.7	23.6
1918.....	16,039.3	3,344.7	12,694.6	20.8
1919.....	16,623.3	6,065.7	10,557.5	36.4
1920.....	15,862.1	7,803.7	8,058.3	49.6

70. April 2, 1921, pp. 688-689. The article, unsigned but dated Rome, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because in a following article (May 14, 1921), attributed to Einaudi by Graham Hutton, the author admits to having also written this article.



The figures for 1920 are calculated on the prices of 1919, so that the variations from 1919 to 1920 are variations of quantities, not of values. From 1913 to 1920 the real value of the lira has been divided by four, so that the figures are only apparently magnified. The excess of imports over exports, although less than in 1917-1919, is very menacing, and it seems impossible that the expenditure of foreign travellers and the remittances of Italian emigrants on which we relied mainly to adjust the commercial balance will be sufficient to-day to achieve this end. But the situation is improving, as is shown by the increasing percentage of the exports on the value of imports.

Even more interesting are the figures for the classes into which the foreign trade is divided:

	Imports		Exports	
	1919	1920	1919	1920
Raw material.....	5,598	5,014	712	989
Semi-manufactured goods.....	3,076	3,249	1,742	2,269
Finished goods.....	2,522	3,364	1,985	3,292
Animals and food products.....	5,318	4,233	746	1,252

An ominous feature has been the decrease in the imports of raw materials. The imports of food are also decreasing, while exports are increasing, facts which point to a return to old conditions. Imports and exports of finished products are also increasing.

The price index number published by Professor Bachi in the *Economista* is falling. The new index of Professor Bachi takes as its basis the year 1920, and is divided into eight classes, and so is no longer comparable with the *Economist* index number, but the trend is the same:

	November 1920	December 1920	January 1921	February 1921
Vegetable products.....	107.7	106.9	106.7	103.9
Animals.....	124.1	126.4	120.7	119.5
Chemicals.....	107.7	102.8	98.1	86.3
Textiles.....	94.0	81.9	77.4	65.4
Minerals and metals.....	101.4	92.7	88.2	79.5
Building materials.....	112.6	112.6	113.3	117.0
Various vegetables.....	108.7	121.8	123.4	127.3
Miscellaneous.....	105.2	106.8	107.1	106.7
General index.....	107.33	104.97	102.89	97.93

High-water mark was reached in November, 1920; in February we could show a fall of about 10 points. If we make the comparison with 1901-05, the general index number, which is the only one calculated by Professor Bachi on this basis, had reached 844.41 in November, 1920, and had fallen to 770.45 in February, 1921. A fall of 74 points is noteworthy, but prices remain at a level very high in comparison with 1901-05. The fall of prices is more accentuated in products such as chemicals, textiles, minerals, and metals, in which foreign competition is more especially felt.

## 71.

## ITALY

BANK OF ITALY – GENERAL ELECTIONS –  
THE PASSING OF THE COMMUNIST PERIL

*From our Correspondent*

Turin, April 10

Signor Stringher has read to the shareholders of the Bank of Italy his usual annual report, full of figures and of interesting remarks upon economic and financial conditions in 1920. A point considered more fully than in past years is the policy of the official Bank rate. The rate was, at the beginning of 1920, 5 per cent., was raised to 5½ per cent. at April 6<sup>th</sup>, and finally to 6 per cent. on May 11<sup>th</sup>, following the example of the Bank of France, which maintained, after April 8, 1920, the rate of 6 per cent., rather than that of the Bank of England, whose rate was put up to 7 per cent. at April 15, 1920. Two reasons are given by Signor Stringher to explain the disinclination of the Bank of Italy to more drastic rises in the Bank rate. 1) In countries with superabundant paper money highly depreciated, a rise in Bank rate is bound to react much less effectively on foreign exchanges, and on the demand for discounts, than in countries with paper money circulating at a parity with gold, or at a little discount to gold. 2) While the quantity of the paper issue would not have undergone any relevant decrease, the rise in the Bank rate would have seriously increased the interest paid by the State, other public bodies, industrial companies, and all debtors in general

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71. April 16, 1921, pp. 779-780. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

upon the new debt created after the rise in the Bank rate. The State alone would have suffered a serious loss, for the huge deficit in his budget which, until 1921, was not less than 14 billions lire, has been covered in the first half of 1920 by 5 per cent. Consols and in the second half by the issue of Exchequer bills and bonds. A difference of 1 per cent. would have meant to the taxpayers an additional burden of 140 millions a year.

On the course of foreign exchanges, which up to a month ago was highly unfavourable to Italy, rising gradually from 51.90 lire to the £ in January, 1920, to 102.28 at December 31, ending in a stabilisation about 106-107 in the first two and a-half months of 1921, Signor Stringher has more weighty admissions. While in previous reports he enlarged upon the influence of the unfavourable balance of commerce, this year he observes that the excess of imports over exports was reduced from  $10\frac{1}{2}$  in 1919 to 8 billions in 1920, which excess is partly covered by the money sent by Italian emigrants, by foreigners travelling and spending in Italy, and by the credits privately opened to Italian importers by foreign banks and exporters. The increase of  $3\frac{1}{2}$  billion lire from January 1<sup>st</sup> to December 31, 1920, in the note issue affords, therefore, a fairly clear explanation in the rise of foreign exchanges and of prices, while the subsequent decrease in the note issue which took place from the highwater mark of 19.718 million lire touched in December 31<sup>st</sup> – exclusive of 5 and 10 lire State notes – is not the least important cause of the recent betterment in the foreign exchanges, when the price of the pound sterling was reduced under the 90 lire level. The social and political atmosphere is clearing, and while much merit is attributed by his followers to the skilful handling of the old chief, Signor Giolitti, all impartial observers are bound to admit that the excesses and vulgarity of Communist and Socialist politicians, the tyranny exercised by petty local chiefs on the masses, could not fail to excite a rapid reaction in a people so quick as Italian are. When the worst happened, in September last, and the occupation of factories by armed workers and the institution of Soviets in factories seemed to point to an imminent Communist revolution in Italy, and the Government declared its impotence to use the armed force for the enforcement of the law, a sudden revolution took place. Youths of the middle class, returned men and officers, in indignation grouped themselves into “fasci”. In recent months, and even to-day, newspapers are full of reports of encounters and fights between “fascists” and “communists”. The communists are everywhere defeated; public opinion is rising against the idols of November, 1919. Premier Giolitti, described as the staunchest opponent of the war, has written a letter to the King proposing the dissolution of the unworkable



Chamber elected at the general election of November, 1919, and hopes that the next elections will disclose a united Italy for the first time since the fall of the Roman Empire. This renewed feeling of hope in the future of our country is not the least important cause of the better tone in foreign exchanges. A while ago Italy seemed likely to be the first country to fall a prey to Moscovite communism and barbarism; to-day the nightmare is gone and gone for ever.

## 72.

## ITALY

BANKING FIGURES – TREASURY BILL NEW ISSUES –  
STATE COFFEE MONOPOLY ENDED

*From our Correspondent*

Turin, April 23

The following interesting figures have been compiled, illustrating the position of the four big Italian banks – Banca Commerciale Italiana, Banca Italiana di Sconto, Credito Italiano, and Banco di Roma (millions of lire):

	July 31, 1920	Sept. 30, 1920	Dec. 31, 1920
Cash .....	864.3	942.0	1,277.5
Italian bills .....	6,860.8	7,231.1	9,033.7
Advances on securities .....	1,501.2	1,486.9	1,560.4
Debtors .....	6,561.7	6,914.7	5,944.7
Deposits .....	2,873.6	2,969.5	3,229.4
Creditors .....	11,257.4	11,854.8	12,581.0
Cheques outstanding .....	1,057.4	1,136.3	1,140.8
Securities .....	355.2	382.8	490.2
Investments .....	506.9	517.7	445.8

The advances on securities, *i.e.*, advances to Stock Exchange operators, were somewhat restricted, and so were credits opened to correspondents; while there was a remarkable increase in the discount of Italian bills and in cash. It is probable that the increase in the bills item was mainly due to large subscriptions to Treasury bills, of which the amount discounted in

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72. April 30, 1921, pp. 872-873. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

the last months of 1920 was very largely increased. The means for increasing discounts and cash were found, apart from the decrease in "debtors" item, in the abundant "deposits".

The industrial unrest of September, 1920, has not been traceable in the banking figures of deposits, but its influence was visible in the figures of the Treasury bills issue. The last Treasury account (published April 5<sup>th</sup>, but relating to the Treasury situation of November 30, 1920) gives the following figures (in millions of lire) of three to 12 months' ordinary Treasury bills:

		Issued	Paid	Increase in Bills Outstanding
July	1920 .....	1,641.2	1,124.7	516.5
August	" .....	1,376.1	1,047.0	329.1
September	" .....	811.7	686.8	124.9
October	" .....	958.8	537.6	421.2
November	" .....	2,455.5	1,447.6	1,007.9

In September, when the labour disturbances were at their height, and Soviet *régime* seemed to be impending in Italy, the new net subscriptions to Treasury bills fell badly to a paltry 124.9 millions lire; but when the revulsion of public opinion commenced, the public returned to Treasury bills, and the subscriptions went up to the high-water mark of over 1 billion lire in the month of December, and it appears, notwithstanding the absence of subsequent figures, that subscriptions have been maintained at a high level. The willingness of the public to subscribe to Treasury bills is increased by the fact that these bills are the only security which is excepted from the impending compulsory inscription of all bearer securities for the purposes of income-tax. This is the reason why the Government has not dared to issue a new full-dress loan of 4 billions lire. The public would have feared the compulsory inscription, and would have continued to prefer the usual bearer Treasury bills. And so the first instalment of the loan of 1 billion lire was issued under the style of "seven-years Treasury bills", this name being used for reassuring the saving public. The conditions were favourable to the ordinary investor: 5 per cent. interest, issue price at 94 per cent., first half-year dividend payable at once, instead of at August 15, 1921. An additional interest of 0.25 per cent. is to be given to subscribers who will inscribe the bonds. Every half-year, on February 15<sup>th</sup> and August 15<sup>th</sup>, there will be drawings for 600 lots or premiums. At February 15<sup>th</sup> the first premium will be one of 100,000 lire, with a second of 50,000, a third of 10,000, four others of 5,000 lire each, and 593 of 1,000 lire. At August 15<sup>th</sup> there will be added to the paid premiums a first big lot of 1,000,000 lire. The whole issue of 1 billion lire was subscribed in a few days.

An event of considerable financial importance was the abandonment of

the coffee monopoly, which was started in 1919 with hopes of great gains for the state exchequer. As a matter of fact, the gains were not forthcoming, or were extremely doubtful; the public was complaining of the bad quality of the State coffee, and Trieste was threatened with ruin to her big trade in coffee. Out of a total of 18 million bags of coffee consumed in the world, Trieste absorbed 1,250,000 bags, and upwards of 20,000 workers lived on the transit trade.

The greatest obstacle to the abolition of the coffee monopoly was the fact that the State had bought, and still possessed at the date of April 1<sup>st</sup>, a stock of perhaps 200,000 metric quintals, sufficient for 10 months' Italian consumption. The stock was bought at an average price which is understood to be not less than 740 lire per metric quintal, and perhaps more, while the current price of superior Santos is at Trieste only about 500 lire. The Exchequer was unwilling to lose the difference; and no private merchant would have dared to commit himself to help the State out of this huge loss if the market had been opened to foreign coffee. The convention signed some days ago between the Government and a consortium of coffee merchants stipulates that the consortium will buy from the State all its coffee stock at the price of 740 lire per metric quintal; but the Government will prohibit all import of coffee in Italy for a period of 10 months.

### 73.

#### ITALY

#### DIRECTION OF FOREIGN TRADE — FALLING WHOLESALE PRICES AND RISING COST OF LIVING

*From our Correspondent*

Turin, May 9

The publication of our foreign commerce statistics for December last gives the data for completing the figures given in my letter published in the *Economist* of April 2, 1921. Our foreign commerce amounted in 1920 to 29,862.1 million lire in imports, and to 2,803.2\* in exports. What

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73. May 14, 1921, p. 976. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

\* *The Economist* of May 28, 1921 (p. 1176) corrected these figures as follows: "Italian Trade



countries have contributed most to these totals may be seen from the following figures:

(Million of Lire)

	Imports	Exports	Balance
Austria.....	464.7	443.9	- 20.8
Czecho-Slovakia.....	184.0	75.1	- 108.9
Germany.....	821.5	380.3	- 441.2
France.....	1,333.5	1,095.3	- 238.2
Greece.....	45.2	160.5	+ 115.3
Spain.....	139.6	139.9	+ 0.3
Switzerland.....	336.0	898.1	+ 562.1
Great Britain.....	2,368.3	884.3	- 1,484.0
British India.....	744.9	160.3	- 584.6
Egypt.....	101.7	235.4	+ 133.7
Tripoli and Cyrenaica.....	21.8	68.4	+ 46.6
Tunis.....	81.3	50.9	- 30.4
United States.....	4,788.5	655.1	- 4,133.4
Argentina.....	1,676.7	419.1	- 1,257.6
Brazil.....	275.2	154.4	- 120.8

Great Britain, India, United States, and Argentina are our great providers of food and raw materials, but from Germany also we bought much more than we could manage to sell.

Commodity prices, according to the calculation of Professor Bachi, in the *Economista* of Florence and Rome, are continuing to descend. The new index is based on the prices of 1920 (made equal to 100), but for the sake of comparison with your index numbers, in the last line is added another general index calculated on the basis of 1901-1905:

	Nov., 1919	Dec., 1919	Feb., 1920	March, 1920
Cereals and other products ..	107.7	106.8	103.4	107.8
Animals.....	124.1	126.4	119.5	117.4
Chemicals.....	107.7	102.8	89.2	86.9
Textiles.....	94.0	81.9	65.4	63.5
Minerals and metals.....	101.4	92.7	79.5	72.0
Building materials.....	112.6	112.6	117.0	112.9
Various vegetables.....	108.7	121.8	127.3	123.2
Miscellaneous.....	105.2	106.8	106.7	103.9
General index (basis 1920)...	107.33	104.97	98.23	96.66
Do (basis 1901-1905) .....	844.41	825.84	772.81	760.66

- A Correction. - We are indebted to a correspondent for pointing out an error in the figures given by our Italian correspondent of Italian imports and exports in 1920 (see *Economist*, May 14<sup>th</sup>, page 976). The figures should read as follows:

Lire

Import.....	15,862,135,935
Export .....	7,803,791,704"

These are wholesale prices. As usual, retail prices lag behind, so that the cost of living is increasing. The weekly budget of a workman's family of five (two adults and three boys) is calculated as follows at Turin:

		Food and Drink	Clothing	Rent.	Heatig and Lighting	Miscellaneous	Total
July,	1920 .....	100	100	100	100	100	100
August	" .....	99.82	104.34	100	99.62	100	100.57
September	" .....	101.43	110.89	100	103.80	100	102.88
October	" .....	106.02	111.19	100	110.19	100	106.18
November	" .....	111.89	115.19	110	118.91	105.38	111.99
December	" .....	119.69	114.25	110	127.43	112.66	118.11
January,	1921 .....	121.07	114.25	110	127.06	112.66	118.25
February	" .....	123.03	114.25	110	107.60	112.66	119.04
March	" .....	130.02	103.70	110	103.24	119.31	122.26

The greatest increase has taken place in food items, owing to the belated rise in bread from 1.10 to 1.40 lire per kilo, and in pastry from 1,20 to 2 lire per kilo. The rise in the bread price caused no sensation. The bread subsidy problem seems to be solving itself with the minimum of friction, owing to lower prices of wheat in the U.S. and to better foreign exchanges. Last year the Government sold wheat at 60 lire per quintal to bakers the same wheat which they bought at 110-120 lire from national producers, and at 250-300 lire from foreign sources, and the bread subsidy caused a loss of 6-8 billion lire to the Italian exchequer. Next financial year, 1921-1922, the Government will sell the wheat to bakers at the same price at which they will buy from internal producers, *i.e.*, at 150 lire per quintal. As, however, the foreign imported wheat costs to-day only 110-120 lire, *c.i.f.* Genoa, the Government will recoup themselves of a part of the loss sustained in past years. The situation is thus simply reversed. Instead of losing, the exchequer will gain from the wheat monopoly, and whereas the monopoly aimed in past years at a subsidisation of bread consumers, it will next year be in effect a subsidy to agriculture. This makes all the more difficult the abolition of the wheat monopoly, as the Government for the sake of inducing agriculturists to grow much wheat, promised that the price for the 1921 harvest would be 150 lire per quintal. The agriculturist says that the promise must be fulfilled. But the rise in the cost of living makes workers and public servants unrestful, and desirous for a rise in wages and salaries. This week public servants in Rome held meetings, and threatened strikes and obstructions; and as general elections are at hand, the Government had to give way and promise a

general revision of salaries, with a minimum rise which will apparently amount to 200 lire monthly. The State can raise salaries, because the yield of taxes is expected to rise. But private industry, which is obliged to face a falling market, cannot concede new increases in wages. If wages are as yet not openly reduced the end is obtained by reduced working hours and fewer men are employed.

## 74.

## ITALY

GENERAL ELECTION RESULTS – PROTECTIONIST THREATS –  
THE DYE INDUSTRY

*From our Correspondent*

Turin, May 23

The General Elections have taken place, and no party can claim complete victory:

	1919	1921
Constitutionals (Liberals, Democratic, Radicals, Nationalists, Fascists, &c.) .....	238	272
Populars (Catholic party) .....	101	108
Republicans .....	13	8
Socialists .....	138	123
Communists .....	18	16
Germans .....	—	4
Slavs .....	—	4
	508	535

Southern Tyrol has sent four Germans, and the province of Gorizia four Slav representatives. This was expected as a result of the annexation of German and Slovene speaking minorities; but as the annexation was a national necessity, and the Italian Government is resolved to give to these minorities the largest autonomy compatible with national sovereignty, it is hoped that German and Slav members will do useful work in Parliament.

The real crux of the problem is the relative position of Constitutional, Catholic, Socialist, and Communist parties. Republicans are a vanishing

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74. May 28, 1921, pp. 1179-1180. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



and hopeless minority. Communists, who are the representatives of the Russian Soviets in Italy, boasted to be sure of increasing from 18 to 30 at the expense mainly of the Socialists. This prophecy was falsified by the electorate. Communists were beaten, and they are a negligible quantity in the new House. The Catholics and Socialists remain the greatest and most compact groups, as they were in the past Legislature. The Constitutionals are greater in number, but not in unity. Among them there are 35 "Fascists", who are neither monarchial nor republican, are opposed to Giolitti and Nitti, and only resolved to favour an anti-Socialist Government. But the polls have not given an unmistakable anti-Socialist verdict.

As in Italy no Government, from the days of Cavour, has ever been able to remain in power with a thin majority, and as the Constitutional majority is divided by internal differences, it is an easy prophecy that no Government will be able to last without the support of the Popular (Catholic) or of the Socialist party. We are doomed to a Coalition Government; and from this point of view the polls went contrary to the hopes of Signor Giolitti and of most Liberal leaders. As, however, the extremest men were not re-elected in the Socialist party, there is much talk of co-operation between Constitutionals and Socialists, which talk would have been an unheard of thing in the past Chamber.

One of the gravest questions facing the new House is the fiscal problem. It appears that the Government have not yet made up their mind as to Protection or Free-trade; provisional solutions are preferred. In November last a high scale of duties was decreed against the import of motor-cars, as much as 20,000 lire duty being imposed upon a single high-speed motor-car. These very high duties aimed at inducing France, United Kingdom, and United States to reduce their very high duties against the import of Italian motor-cars; but the hope was not fulfilled.

The next provisional Protectionist measure was announced by Signor Alessio, Minister of Trade, in his electoral speech in favour of the dye industry. What the measure will be it is as yet not known; some say a high import duty, while others prefer a limitation of imports, subject to Governmental permit. The case for Prohibition or Protection is twofold. Firstly, there is the direct interest of the Government. It appears that, in virtue of the Treaty of Versailles clauses, Italy had the right to have from Germany at stated prices 3,500,000 kg of dyes up to December 31, 1920, and 200,000 kg monthly afterwards. Up to March 31<sup>st</sup> Italy had received only 1,500,000 kg, but even this reduced quantity was too much for the internal demand, which absorbed only about 400,000 kg. The Government had entrusted the sale of German dyes to a union of producers and con-

sumers, but the results, which were highly satisfactory in 1919, are to-day very disappointing. German producers are successfully competing against German Treaty dyes sold by our Government. The price of the black sulphur dyes from 1.50-2 lire per kg went up to 14-15 lire in the second half of 1919, but is to-day, owing to the crisis in the cotton industry, only 6-6.50 lire per kg. At this price the newly-established Italian producers clamour that they cannot produce without loss. They say that their industry has invested 400 million lire, and that it employs upward of fifty thousand workers. In actual fact, the workers employed, if we deduct those which are employed in chemical, matches, medicine, and explosive industries, do not exceed a thousand men, and the capital employed should have been amortised during the war, when high profits were reaped in the making of explosive and of dyes.

Against these paltry figures the industries consuming dyes are employing upward of 600,000 men, and are depending for their life upon exports. The silk industry provides 25 per cent. of the total Italian exports; cotton and wool exported before the war formed 11 per cent. of the total exports. Cotton goods (yarn and textiles) exported were in 1913-14 654,000 kg out of a total production of 1,897,000; in 1919-20 207,000 kg out of a total of 1,539,000, the proportional figures being 34 and 35 per cent. The cost of dyes bore the following proportion upon the price per kg of cotton spun goods:

	Price of Cotton Spun Goods Lire	Cost of Dyes Lire	% of the Cost of Dyes Upon the Total Price
Before the war .....	2.55	0.185	7.25
March, 1921 .....	12.50	1.82	14.50

The cost of dyes is a by no means unimportant item in the cost of production. While the price of cotton goods increased 4.9 fold, the cost of dyes increased 9.85 fold. An additional increase of the cost of dyes owing to a high import duty or to a vexatious Governmental permits system would have a serious effect upon silk, cotton, and wool exports. Dye producers ask for a duty of 3 gold lire per kg. At the present rate of exchange this would amount to 9-10 paper lire per kg, while the price (internal) of black sulphur dyes is of 6-6.50 paper lire per kg. The proposed duty would amount to an increase of 150 per cent. in the price of dyes, and would make exports of textiles from Italy very difficult indeed.

75.

ITALY

A STRIKE AMONG PUBLIC SERVANTS – YIELD OF TAXES

*From our Correspondent*

Turin, June 5

The week has been characterised by an agitation among public servants. It appears than on the eve of general elections, Signor Corradini, Under-Secretary to the Home Department, let it be understood that monthly salaries would be increased by 200 lire, irrespective of grades. At the end of May, when the so-called promise should have been fulfilled, Signor Bonomi, the Treasury Minister, found out that the promise was never given by any authorised member of the Government, should never have been given, and, above all, could not be fulfilled. The cost of public servants had already increased from 900 million lire in 1914 to 5,300 million lire in 1921.

This last sum represents more than a third of public income; and as, roughly, another third is absorbed by interest on debt, it appears impossible to exceed the present expenditure. The problem, however, is not to be put aside by the simple plea of impossibility. Public servants are making appeal to justice, pointing out that salaries given to the great and well-organised category of State railway servants are much higher than the salaries of all other public employees.

It is in vain that Ministers and politicians point out that railwaymen are working on an industrial basis, that the State railways should be regarded as an industrial concern, with wages and salaries equal to those prevailing in the private industry. Public servants reply that the railway work is no more difficult than theirs, and that all public salaries should be made uniform. Railway salaries have been increased, they say, not by reason of the special difficulty of the work done, but in consequence of better organisation, and of strikes threatened or actually put in effect last year. The bad example has fructified, at present the public employees are at Rome, and in several other great cities practising the so-called white strike; that is, they

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75. June 11, 1921, p. 1279. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



are at present in their office rooms, but they abstain from working. The Government have let it be known that they are disposed to increase salaries, if it is possible to diminish the number of public employees, so that the total expenditure shall not exceed the present 5,300 million lire. The all round increase of 200 lire a month would cost 900 million lire, and the equalisation to railway employees' salaries would put up the expense to 8,000 million lire. The charge would be absolutely unbearable. Figures which are coming to hand point to an increase in public income, but we are far from the sum which would be necessary to satisfy the requests put forward by public employees.

Below are given the figures of "principal" items of public income for the first nine months (from July 1<sup>st</sup> to March 31<sup>st</sup>) of the last and current financial years (in millions of lire):

	1919-20	1920-21
Income-taxes .....	1,485.7	2,371.0
Succession duties and other registration duties .....	465.4	568.8
Stamp taxes .....	463.4	894.4
Excise and Customs .....	907.6	1,254.3
Industrial monopolies (salt, tobacco, matches, and playcards) .....	1,286.2	2,025.1
Lottery .....	70.4	106.7
Commercial monopolies (coffee and coffee substitutes) .....	272.5	368.6
Total .....	4,951.1	7,588.9

The results obtained are highly gratifying, and it is to be hoped that the sum total of these principal items may touch the record of 11,000 million lire at the end of the financial year, and that the "minor" items will bring the general total of public income even higher, to 12 or 13 billion lire; and that the natural development of new taxes will give next year a total even higher, up to 15,000 million lire. But there are not wanting ominous signs of distress owing to the great increase of taxation. Especially the confiscation of war profits, *i.e.*, the increase of the tax to 100 per cent., is the cause of the gravest financial difficulties to many taxpayers. As the law prescribes that the stocktaking for purposes of taxation shall be made at the date of June 30, 1920, and as at that date we in Italy had reached the high water mark of prices, the taxpayers are at the same time facing the tumbling down of prices and the demands of the taxing officers based on profits calculated on past high prices. As a result of increasing protests on behalf of taxpayers, the Government have felt obliged to grant some delay for the payment of the tax. But I am afraid they will be obliged to grant also important reliefs in the hardest cases.

## 76.

## ITALY

## RETURN TOWARDS FREE TRADE IN CEREALS AND SUGAR

*From our Correspondent*

Turin, June 20

The two last remaining war excrescences on the economic structure of Italy are disappearing – namely, the State monopolies of cereals and sugar. The Government has issued decrees by which internal trade in Indian corn, oats, barley, and rye are made absolutely free, and the imports from foreign countries are only made subject to the old duties of 1.15 lire for corn, 4 for oats, and 4.50 for barley and rye. But for wheat the problem is somewhat complicated by promises given to wheat producers and consumers. To wheat producers the State promised by decree of June 4, 1920, that the price would be fixed from July 1, 1921, at 125 lire per quintal, with an additional premium of 21.50 lire for the wheat produced in the Southern provinces, in the Islands, and in the territory formerly occupied by the enemy. If the ports should be opened to the free imports of foreign wheat, the Government may run the risk of breaking its promise, made to induce producers to sow large areas with wheat. The price of North American wheat, c.i.f. Genoa, which had risen from 126 lire per quintal in September, 1919, to the maximum of 292 lire in May, 1920, fell to 140 in May, 1921. Some quantities were even bought at 110 lire; and to-day the c.i.f. price is fluctuating between 130 and 140 lire. A complicated system of variable duties and bounties would be, therefore, necessary to guarantee to wheat producers the promised prices. What will become, moreover, of the premium promised to Southern and other provinces?

The Government, therefore, has limited itself for the moment to a decree with which they declare that they will accept up to August 31, 1921, all offers of wheat from internal producers at the stated prices of 125 lire per quintal in the Northern and Central provinces, and of 146.50 in the Southern and other provinces. It is to be feared that the offers will be very much greater than in past years. In the nine months from August, 1920, to

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76. June 25, 1921, pp. 1370-1371. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

April, 1921, the State obtained with great difficulty and by means of forced requisitions 10,733,135 quintals of wheat. No producers would have freely offered a single quintal of wheat, as the free or clandestine price was higher than the State price. As the reverse situation will probably obtain in ensuing months, the free offers will be, it is feared, very abundant, thus greatly lessening the necessity for foreign imports.

But the troubles of the Government will not end there. If it were possible to free the price of bread from State regulation, State imports could be discontinued, and private traders could step in instead. No private trader, however, would dare to import a single quintal of foreign wheat at the present c.i.f. cost of 140 lire if the bread price is to remain fixed on the present basis of 115 lire for wheat. On this basis, the bread prices are at Turin, for example, 1.40, 1.70, and 1.90 lire per kilogram, according to quality. The State loses the difference between 140 lire, which is the price of foreign-bought wheat, and 115 lire, which is the sale price of the same wheat to the distributing consortiums.

Similar difficulties are handicapping the Government in the efforts made towards extricating themselves from the sugar difficulties. By a recent decree, sugar rationing is to be abolished from July 1, 1921. The consumption of sugar, which was about 2 million quintals in 1913 and 1914, was reduced by rationing only to 1,245,000 quintals in 1917. To-day, the consumption is 2,500,000 quintals yearly. The individual monthly rations differ from the maximum of 780 grams for Leghorn, 770 for Turin, and 760 for Genoa to 175 grams for Avellino, 185 for Teramo, Campobasso, and Palermo. If the imports were free, foreign sugar could be landed at Genoa for less than 500 lire per quintal – viz., 200 lire for sugar proper, c.i.f. Genoa; 216 lire normal duty, equal to the internal excise; 22.85 *gold*-lire, corresponding about to 68 *paper*-lire of protective duty; 3 lire for port dues and costs; making a total of 488 lire. But the Government cannot proceed at once to abolish the sugar monopoly, as they promised last year to beetroot producers a fixed price of 16.50 lire per quintal. It was a necessary guarantee, they said at the time, as they would not otherwise cultivate beetroot. But the consequences are to-day rather ominous.

As the foreign sugar can be landed for less than 500 lire, the sugar producers are clamouring that, if imports are made free, they cannot pay to beetroot producers the promised price of 16.50 lire per quintal. And so the Government are finding themselves in the predicament of having abolished the rationing system and of being forced to continue the State monopoly for some months, until, in October next, the agriculturists have delivered their production of beetroot. Then it will be possible to calculate the



difference between the fixed price of 16.50 lire and the price at which the sugar producers would have found convenient to buy beetroot with a view of meeting competition of foreign sugar. And then, if we will return to free trade in sugar, the taxpayer will pay the piper.

77.

ITALY

THE TRANSITION TO FREE TRADE IN WHEAT —

PROPOSALS FOR INCREASING EXPENDITURE —

THE RESIGNATION OF THE GIOLITTI CABINET AND FINANCIAL PROBLEMS —

THE FALL IN STOCK EXCHANGE QUOTATIONS

*From our Correspondent*

Turin, July 2

Since my last letter signor Soleri, the High Commissioner for Food, has obtained the consent of the Cabinet to a scheme for the final passage to free trade in wheat. After declaring that they will accept until August 31, 1921, all offers from agriculturists of national wheat at 125 lire per quintal for soft wheat and 145 lire for hard wheat, with additional premiums of 21.50 and 25 lire for southern provinces, islands, and territory formerly occupied, the Government were obliged to forbid until the same date any commercial intercourse between the two sets of provinces, those with and those without premiums, as otherwise all wheat could be smuggled from the latter into the former provinces for the sake of the premiums.

For the two months of July and August the sale price by the Government to millers is fixed at 128 and 150 lire for the two qualities. They hope that agriculturists will prefer to sell to private millers at a price from 125 to 128 lire rather than to the Government at 125 lire, so that the Government will be relieved of the burden of too great a mass of wheat thrown upon it by national producers fearing the competition of foreign wheat at lower

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77. July 9, 1921, pp. 54-55. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

prices. As the imports of foreign wheat will be made free only from September 1<sup>st</sup>, the prices will oscillate until that date about 128 and 150 lire. The loss of the national Exchequer will be reduced to the payment of the premiums in the Southern and other privileged provinces. One may hope that this will be the last loss, and that after September 1<sup>st</sup> the State will be free from this appalling source of expenditure, and the wheat trade definitely restored to its natural freedom.

In his recent speeches the Premier uttered significant warnings against proposals of new expenditure which are forthcoming after the announcement, repeatedly made by responsible Ministers, that the deficit of the Italian Budget was reduced from 14 billion lire in 1920-21 to 4 billions in 1921-22. Signor Giolitti said very pointedly that 4 billions are not a matter to be trifled with, and that the deficit figure will easily increase if Parliament and Government will not set their faces resolutely against all new expenditure. The proposal, largely patronised in the Chamber of Deputies, of giving another monthly bonus of 200 lire to all public employees would add 900 millions lire to the expenditure. A scheme for national health insurance would cost another 900 millions, and so on.

The warnings fall as yet on sterile ground as far as concerns the House of Deputies, where the Government encountered a bitter opposition when they proposed the reduction of the number of public employees and the concession to this end of the necessary discretionary powers to Ministers. The Cabinet had to resign, apparently upon a doubtful vote on foreign policy, but in reality also owing to the difficulties encountered in the task of limiting the increase of expenditure and of applying the somewhat wild schemes of taxation voted by Parliament in September last. Especially the total confiscation of war profits is proving difficult in a falling market. As the law of September 24, 1920, prescribes that the valuations for taxing purposes shall be made at the date of June 30, 1920, and as at that date all prices were in Italy at their maximum, the taxpayers are confronted with the impossible task of paying enormous taxes upon a basis of values which is fast disappearing. For example, taxpayers who had invested, upon the advice of the Government, their war profits in ships, when these had to be bought from 2,000 to 2,200 lire per deadweight ton, are to-day obliged to pay these same 2,000-2,200 lire to the public Exchequer when the price of the ton has fallen to 500 lire.

To this cause of financial instability there is added the menace of compulsory inscription of all private securities. Inscribed securities are far from popular in Italy, where only bearer securities are practically negotiable. The fear of compulsory inscription is not the least cause of general decreases in

the prices of stocks and shares. A recent calculation by Professor Bachi gives the following results on a basis of 100 for December, 1918:

	Dec., 1918	Dec., 1920	May, 1921
Banks .....	100	103.17	96.54
Ex-railways .....	100	62.21	51.37
Transportation by land .....	100	70.86	60.11
Transportation by sea .....	100	83.61	51.79
Cotton .....	100	137.77	103.38
Jute .....	100	118.18	96.07
Wool .....	100	101.47	101.11
Hemp and flax .....	100	152.81	98.42
Silk .....	100	172.32	123.79
Mines .....	100	74.54	55.79
Metals .....	100	47.75	26.93
Engineering .....	100	55.12	58.28
Motorcars .....	100	72.71	50.39
Electricity .....	100	67.68	68.48
Chemicals .....	100	80.26	67.07
Sugar .....	100	108.91	92.24
Food .....	100	106.40	90.66
Waterworks .....	100	87.13	87.44
Land and houses .....	100	100.63	102.66
Miscellaneous .....	100	130.50	108.67
General index .....	100	79.67	68.39

For cotton, wool, silk, and miscellaneous maximum prices were quoted later than December, 1920. The land and houses category is alone enjoying a continuous rise, owing to better prospects for the future, when the exceptional Rent Restriction Acts will cease to operate. The fall was most severe in navigation, mines, engineering, motor-cars, which were the greatest war profiteers, and reaches its maximum to the metallurgical group, owing to the artificial nature of this industry in a country like Italy deprived of coal and iron. One of the last acts of the Giolitti Cabinet was a decree promulgating the new fiscal import and export duties. The publication of this new general tariff is awaited with interest, as it is feared that protection has gained by it a signal victory just at a time when all people are clamouring for a reduction in the high cost of living.



## 78.

## ITALY

## THE NEW GENERAL TARIFF

*From our Correspondent*

Turin, July 10

The most important measure enacted by the past Giolitti Cabinet on the eve of its fall was the hurried passing by Royal legislative decree of the new general tariff. The decree bears the date of June 9, 1921, and was published in the official *Gazette* of June 30, 1921. Professor Alessio, the former Minister of Industry, was evidently bent on leaving his mark on fiscal legislation. A new general tariff was necessary, for the existing tariff of 1887 was growing obsolete. The great problem was – more or less protection? No one dreamed of a return to the Free-trade era of Cavour and his immediate successors. A Royal Commission had studied the problem, and published over 30 large volumes of special and general reports. Its findings were decisively protectionist. They proposed that the old system of a general tariff and of subsequent treaties of commerce with foreign countries with lower binding duties should be discontinued, and that in place thereon should be substituted a system, akin to French or United States examples of a double tariff; a higher tariff to be applicable to some nations and a lower tariff to States giving us the benefit of lower duties, both duties to be variable at the pleasure of the Italian Government. The Protectionism in these proposals was too rampant to be acceptable to political parties. The present Alessio tariff maintains the old principle of a general tariff applicable to all countries which apply their general tariff to our goods, and of a lower tariff based on future treaties of commerce. Much will depend, therefore, on the stipulation of commercial treaties, but evidently the general tariff is to be a basis on which negotiations will be conducted. The general features of the new tariff are as follow: 1) The tariff is applicable as from July 1, 1921, to all goods which do not come from countries with which Italy has a treaty of commerce in force.

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78. July 16, 1921, pp. 99-100. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because: a) it is dated Turin; b) the treatment of the argument is the same as Einaudi's article in *Il Corriere della Sera* (July 12, 1921) entitled "Necessità di chiarimenti sulla nuova tariffa doganale".

2) The duties are payable in gold, *i.e.*, at a rate of exchange which is every week fixed by Government, on the basis, presumably, of a mean of the exchanges with France, Switzerland, Great Britain, and United States. 3) To the principal duty there is to be added, in the great majority of cases, an additional duty, called increment coefficient (*coefficiente di maggiorazione*). For instance, "Horses", which bear the schedule number 1 of the new tariff, pay, if not less than 1.40 metres in height, 140 gold lire each. As, however, the increment coefficient is 0.5, we shall add another 70 lire, so that the whole duty will be 210 gold-lire, which, by the way, corresponds today to about 700 paper-lire. 4) The additional duty is variable at the will of the Government. If the Minister of Industry thinks that foreign competition is becoming too severe, he can put up the duty by a decree, and afterwards put the decree on the table of the House of Deputies, which, it is hoped, will accept the accomplished fact. 5) The new tariff includes 951 schedules, whereas the old tariff contained only 472. The increase is partly due to technical variations and progress in the industry between 1887 and 1921, but is also, unmistakably, an indication of the more Protectionist tendency of the new tariff. With more numerous and refined distinctions between goods and goods, the clause of the more favoured nation will not work at all smoothly. The refinement in the classification of goods is directed against the peril – from a Protectionist point of view – that a lowering of a duty on a given class of goods in favour of a given country may be used by another country for claiming a decrease on other goods which happen to be in the same class. With more detailed schedules this stretching of decreases will not be so easy as in the past. The change of classification makes an exact comparison between old and new tariff more difficult. If all schedules resembled the first already cited ("horses higher than 1.40 metres"), the prospect for Italian consumers would not be bright. In the old tariff horses paid 40 gold-lire. Now they pay 140 lire principal duty, 70 lire additional duty, in all 210 lire, all in gold, equivalent to about 700 paper-lire. The increase in paper-lire is about seventeenfold. Fortunately the increases are not everywhere so high. But the instance given is sufficient to point out a fundamental mistake in the new tariff. The compilers evidently adopted the "increment coefficient" to enable the Government to counteract the influence of increased costs of production of Italian goods in relation to the assumed lower cost of foreign goods. But the payment in gold-lire has already the very same aim and effect. The payment in gold and the additional duty are bound to overlap, and to constitute, in most cases, a double charge on Italian consumers.

The schedules are so varied as to give an impression of decrease in the lower grades of goods, but the decreases are few, and comparatively unimportant in comparison with the increases in the higher grades. If the "principal" duty may appear lowered in some cases, this impression is reversed if we take account of the additional duty. Italian consumers, moreover, who pay duties in paper-lire and whose incomes, in not a few cases, have not increased in proportion to the depreciation of the lira, are apt to be hit by the gold duties even more severely than foreign importers from relatively appreciated countries. The Government says that foreign States, as, for instance, Great Britain, France, Spain, Czecho-Slovakia, have increased their tariffs even more, but the contemplation of worse cases will be a scanty comfort to Italian consumers.

## 79.

## ITALY

BUDGET SPEECH – DECREASING DEFICIT AND DECLINING NOTE ISSUE –  
APPRECIATION OF PAPER-MONEY

*From our Correspondent*

Turin, July 29

The Finance Minister, Signor De Nava, has made an emergency Budget speech in the Chamber of Deputies. A cloud was hanging over the probable results of the financial year just commenced, from July 1, 1921, to June 30, 1922. The ex-Premier, Signor Giolitti, had announced to the Senate, before the General Elections, that the deficit had been reduced from 14 to 4 milliards lire. Signor Soleri, the present Finance Minister, loosely talked some days ago, of a deficit of 7 milliards lire. The public was at a loss to know which of the figures was the true one.

The financial year 1920-21, the Finance Minister now says, closes with a deficit of 10,300 millions lire, or 4,000 less than the estimate made a year

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79. August 6, 1921, p. 225. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because: a) it is dated Turin; b) the treatment of the argument bears strong similarities with that in Einaudi's article in *Il Corriere della Sera* (August 2, 1921) entitled "Imposte e circolazione".



ago. The present financial year, 1921-22, was expected last year to give a deficit of 10,370 million lire. After the estimate was made, events took place which greatly changed the situation. I give below the principal causes of variation (in millions lire):

Decrease in expenditure:		Increase in expenditure:	
Loss on bread .....	5,300	Interest on debt .....	400
Loss on State navigation .....	200	Expenditure for reconstruction in new and formerly occupied by the enemy provinces .....	150
	<u>5,500</u>	War pensions .....	200
Increases in income:		Subsidy to private railways and tramways .....	126
Income taxes .....	204	Increases of salaries and bonu- ses to public employees, out- of-work subsidies, public works, &c. ....	1,291
Stamp and registration taxes ...	274	Loss on State railways and addi- tional votes of credit .....	459
Wine tax .....	300		<u>2,626</u>
Customs .....	100	Decreases in income:	
Tobacco .....	300	Coffee .....	102
Additional tax for war crippled, widows, &c. ....	120		<u>2,728</u>
Post and telegraphs .....	150		
Exchange-gain for Customs du- ties .....	150		
Sundry tickets on State railways	26		
	<u>1,624</u>		
Other increases of real over bud- geted income .....	1,000		
	<u>2,624</u>		
Total .....	8,124		

If we deduct from the originally estimated deficit of 10,370 lire the difference between the probable gain of 8,124 millions and the loss of 2,728 millions, we obtain the new figure of about 5,000 millions lire of probable deficit for the current financial year. Public debt will increase, although at a lesser pace than in the past, when it increased from 9.8 billions at October 31, 1920, to 106,621 millions lire at June 30, 1921. Of this enormous sum, probably 22,000 millions are foreign debt, taken at the par of exchanges, due to Great Britain and United States. If we were to pay these foreign debts at the present rate of exchange, instead of 22,000 we should pay about 80,000 millions lire. In addition, there exist 84,000 millions lire of internal debt.

Of this internal debt, about 50,000 millions are funded debt, 25,000 millions Treasury bills and bonds at short dates, and 9,000 paper notes issued by the banks for Government account.

The paper issues in Italy went up as follows, from the beginning of the war (in millions of lire):

	Banking Notes (for Government Account and for Commercial Purposes)	State Notes (of 5 and 10 Lire, exclusive of Notes of 1 & 2 Lire)	Total	Number Index
First quarter of 1914 .....	2,200	400	2,600	100
December 31, 1914 .....	2,936.0	657.2	3,593.2	137.0
" 1915 .....	3,968.0	1,082.1	5,050.1	192.5
" 1916 .....	5,012.4	1,317.3	6,329.7	241.3
" 1917 .....	8,425.0	1,748.8	10,173.8	387.8
" 1918 .....	11,753.2	2,124.1	13,877.3	529.0
" 1919 .....	16,281.3	2,271.3	18,522.6	707.3
" 1920 .....	19,731.6	2,269.3	22,000.9	846.1
June 20, 1921 .....	17,757.0	2,270.0	19,827.0	762.5

After a continuous increase, which multiplied the original circulation almost by  $8\frac{1}{2}$ , we have obtained, in the first half of 1921, a decrease of almost 2,200 millions lire. This is an omen of better times, and of reduced prices. It is doubtful, however, how far it will be possible to go in the way of monetary parity.

Italy has made a very good beginning in the reduction of her Budget deficit and of her note issue; but, if dollars and pounds sterling gain more rapidly in buying power, it is even possible that our lira, although appreciating in terms of goods, will depreciate in terms of dollars or sterling. For the sake of international trade, some sort of international agreement upon the relative progress of monetary appreciation in various countries would be helpful.

## 80.

### ITALY

#### REVENUE RETURNS – SAVING BANKS

*From our Correspondent*

Turin, August 13

Recent revenue statistics give interesting particulars of the financial results of past year. The general real revenue was 12,600 millions lire. About 1,700 millions are classified under the head of minor or miscellaneous items. The other items are classified as follows (in millions of lire):

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80. August 20, 1921, p. 298. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the manuscript, entitled "Italy. Revenue returns. Saving banks" and dated "Turin, August 31, 1921", is kept in the Einaudi archives.

	1919-20	1920-21	Inc. or Dec.
Income-taxes .....	2,331.4	3,993.4	+ 1,662.0
Stamp and concession taxes .....	633.4	1,107.8	+ 474.4
Succession and registration taxes .....	665.8	773.5	+ 107.8
Excise and other consumption taxes .....	1,314.7	1,608.0	+ 293.3
Industrial monopolies .....	1,829.1	2,744.1	+ 915.0
Lottery .....	90.5	151.0	+ 60.5
Commercial monopolies .....	452.5	521.9	+ 69.3
Total .....	7,317.4	10,899.7	+ 3,582.3

In the income-tax category, the most interesting feature is the great increase in the yield of the excess profits tax, which goes from 1,029 to 1,991.5 millions lire. For two years this tax will still give a large yield, but its ultimate disappearance must be looked forward to with some concern. Fortunately, other taxes show signs of taking its place. First of all there is the extraordinary tax on capital, which from *nothing* in 1919-20, rose to 452.5 millions lire in 1920-21, and may yield during the first ten years of its existence about 1,000 millions annually. This will enable the Treasury to surmount the most difficult period in the reorganisation of the old income-taxes. The oldest of all, the tax on land income, progressed only from 114 to 115.6 millions lire in the last two years. The yield is stationary owing to the antiquated methods of valuing land incomes. Once reformed, the tax will give more important results. The tax on professional, industrial, commercial incomes and on incomes of capital and public and private employments rose from 686.4 to 935.3. This is a satisfactory rate, and full of promise. Next year the provisional super-tax on incomes above 10,000 lire will be superseded by a new complementary tax on total income, which is bound to yield a much greater sum than the paltry one of 89.4 millions lire furnished by provisional tax.

In the stamp and concession category, perhaps the most interesting items are the luxury taxes:

	1919-20	1920-21	Increase
Tax on cinematographs .....	14.3	17.4	+ 3.1
Tax on motor cars .....	36.2	83.2	+ 47.0
Tax on jewellery .....	17.8	24.1	+ 6.3
Tax on perfumeries .....	39.2	43.1	+ 3.8
Tax on restaurants .....	4.5	5.4	+ 0.9
Tax on liquor and fine wines bottles .....	14.2	21.5	+ 7.3
Tax on sales of luxury goods .....	—	66.1	+ 66.1
Tax on theatres .....	—	2.5	+ 2.5

This category, which is in its initial stage, is very promising, especially if the Exchequer will resist proposals to increase excessively the rates of tax.



The increase of 293.3 millions in excise is wholly due to the new tax on wine, which from *nothing* in 1919-20 passed to 311,1 millions lire in 1920-21. But the wine growers are very influential in Italy, especially among the popular or catholic party. This party has secured a partial repeal of the voted increase of the rate of the tax from 10 to 30 lire per hectolitre. The tax will be increased only to 20 lire. Even so, the wine tax will give next year an increased return.

The *commercial* monopolies on coffee, coffee substitutes, & c., have been repealed, as I said in a recent letter, but the Exchequer will lose nothing, as coffee and coffee substitutes will remain subject to an equivalent excise tax.

The *industrial* monopolies continue their brilliant career:

	1919-20	1920-21	Increase
Tobacco .....	1,580.1	2,425.4	+ 855.3
Salt .....	125.8	133.3	+ 7.5
Matches .....	117.0	167.6	+ 50.5
Playing cards .....	6.2	7.8	+ 1.6
Lottery .....	90.5	151.0	+ 60.5

Tobacco and matches are closely connected, and the regularity of their consumption, in spite of heavy increases of prices, is a most interesting feature of post-war finance. It appears that common people, who before the war consumed very little of this luxury, have learned the taste for tobacco in the trenches, and are not apt to lose it.

A report on the ordinary saving banks (exclusive of postal savings bank) gives the following figures of deposits (in millions of lire):

End. of June,	1914 .....	2,800.0
" December,	1914 .....	2,703.0
" "	1915 .....	2,785.0
" "	1916 .....	3,222.3
" "	1917 .....	3,727.4
" "	1918 .....	4,781.4
" "	1919 .....	5,841.8
" "	1920 .....	6,668.4
" March,	1921 .....	7,135.0

The increase is following the march of the depreciation of the lire; but, nevertheless, is a proof that workers, public and private employees, farmers, and the middle-class of professional and commercial people, which constitutes the bulk of the saving bank clientele, are not losing their saving capacity.

81.

ITALY

REVIVAL IN THE STOCK EXCHANGE –  
NEW REGULATIONS ABOUT CONFISCATION OF WAR PROFITS –  
SUSPENSION OF THE COMPULSORY INSCRIPTION OF PRIVATE SECURITIES

*From Our Correspondent*

Turin, August 28

After mid-August holidays, the Stock Exchange re-opened with a better tone in regard to industrial securities. It is too soon to say whether the movement will be a short-lived one, but the undertone is distinctly improved. Two facts stand out to explain the more roseate vision of the bourse. The first is the partial surrender of the Finance Minister in the face of the strong opposition encountered in financial and trade circles against the too severe interpretation of the law of September 24, 1920, which confiscated all war profits from August 1, 1914, to June 30, 1920. Several criticisms were formulated as to consequences of the law of confiscation, the first and most important of these being the fixation at June 30, 1920, of the end of the war period. At that date prices touched in Italy their highest mark. Suppose an industrial concern, at August 1, 1914, had a stock of, say, 1,000 tons English coal, valued at 40 lire per ton, or a total value of 40,000 lire; if at June 30, 1921, the same company had the same stock, at 700 lire per ton, was to suffer a valuation of 700,000 lire, with a war-profit of 660,000 lire, to be confiscated. The same thing happened to all stocks of raw materials, machinery, &c. If, after June 30, 1920, prices of assets went down, the taxpayers may be ruined, having to pay the confiscation tax on values very much higher than the present. A recent order of the Finance Minister prescribes that the valuation shall be made only after December 31, 1921, when the prices will have perhaps settled down. When made, valuation shall take account not only of the prices current at June 30, 1920, but of the possibility for the taxpayers of utilising the various assets. And so, machinery, of the value of 100,000 lire, at June 30, 1920, will

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81. September 3, 1921, p. 375. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable because it is dated Turin.

be valued only at 30,000 lire, if its future utilisation is capable only of this minor capitalisation. Various other devices are prescribed, so that the confiscation of war profits may not result in the ruin of taxpayers.

The Stock Exchange heard even more gladly the announcement that the Government had resolved to suspend the by-law regulating the compulsory inscription to the name of the possessor of all private securities. This was one of the principal planks of the Giolitti Cabinet's platform. The fundamental reason for compulsory inscription or registration of securities, in a country like Italy, where nine-tenths of securities were to bearer, was that the bearer securities made it very easy for taxpayers to evade the succession taxes, capital tax, and income surtax. All these taxes have a progressive rate, increasing with the increase of the capital or income of the recipients, so that it is imperatively necessary to know the name and the total fortune or income of the taxpayer.

Protests were in vain. The law of September 24, 1920, made compulsory the inscription or registration of all State or private securities, excepting only Treasury bills (*Buoni del Tesoro*). The consequences were rapidly felt. The issue of State loans was made impossible, the war loan 5 per cent. tumbled down from 82-83 to 67 lire, and stands to-day only at 75 lire. The Treasury was obliged to have recourse to short-dated bills. At the close of the financial year 1920-1921, of a total external debt of 84,000 millions lire, only 50,000 are funded debt, 25,000 millions lire being Treasury bills at short dates, and 9,000 paper notes, issued by the banks for Government account. Last spring, when the Government sought to float a loan of 1,000 millions lire for the reconstruction of invaded provinces, banks advised the Treasury Minister that the public would not touch a loan liable to compulsory inscription. For this reason, the loan was launched under the nominal disguise of seven-year 5 per cent. Treasury bills. As "Treasury bills", they were exempted from inscription or registration, and the issue was therefore rapidly absorbed. One may add that the Treasury was wholly unprepared to the gigantic task of inscribing and transferring 90 billions lire of funded debt, apportioned among a million at least of individual possessors. For these two reasons, the by-law which should have regulated the inscription of *State* securities was never published. The section of the law of September 24<sup>th</sup> is thus suspended, and no one knows when and if it will be put into execution.

The other section, relating to *private* securities (stocks and shares of joint-stock companies, land bonds, loans of local authorities, &c.) seemed, at one moment, to be ready for institution. In the last days of the Giolitti Cabinet a by-law was published in the *Gazzetta Ufficiale* of July 2, 1921,



which purported to give the rules under which all private securities were to be compulsorily inscribed before January 2, 1922, and all issues of bearer securities were forbidden. Feeling ran high in financial circles; in the Senate a sort of revolt took place. The impending economic crisis, which was developing somewhat late to Italy, made doubtful of the wisdom of the abolition of bearer securities in a country where no other kind of securities can easily find a market, even those men who, for fiscal reasons, were favourable to the inscription system. The bourses, which had been for many months very apathetic, went down. The new Minister of Industry, Signor Belotti, who, during Parliamentary debates, in July and August of last year, was among the few members who opposed the Bill, took the opportunity of suspending the by-law with the consent of the Cabinet. That is how things stand at present. The law of September 24, 1920, is not repealed, but the by-laws, which are necessary to its practical application, do not exist. The one relating to State securities, was never published; the other, relating to private securities, was first published, and afterwards suspended. The bourses, which had always been fiercely opposed to the inscription system, hailed the suspension as a token of the final repeal of the law. Perhaps the law will not be repealed, for we in Italy are apt to follow the dictum of our greatest poet, Dante Alighieri: *Le leggi son, ma chi pon mano ad elle?* There are the laws; but they are not applied if they prove a nuisance.

## 82.

## ITALY

## SUBSIDIES TO SHIPBUILDING, AND LEGISLATION BY DECREES

*From our Correspondent*

Turin, September 11

An interesting constitutional and financial problem has been debated this week in the Press and political circles. It is a residue of our D.O.R.A. war methods, which, by the way, were much more arbitrary than in your country. By a law of May 22, 1915, the Government was empowered to legislate and to act freely on the basis of the old dictum *salus pu-*

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82. September 17, 1921, pp. 444-445. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

*blica suprema lex.* All the governments after May, 1915, freely used the machinery of Royal legislative decrees. Bureaucracy was substituted for Parliament. Not a single budget after 1915 was laid in the ordinary way before Parliament and subjected to a regular debate before the beginning of the financial year. Even to-day taxes are laid and expenditure effected on a vote of provisional authorisation for the first six months of the financial year, which vote was given by Parliament after a perfunctory general debate. Signor Giolitti promised in his Cabinet programme that he would put an end to the system of legislative decrees, but on the eve of his fall he did not refrain from publishing, on June 30, 1921, a Royal decree enacting a new protectionist custom tariff, thus breaking a solemn promise made to the Chamber that no new tariff would be enacted without the consent of the Parliament.

The slowness with which legislation by Royal decrees is dying is due to its being much more easy thus to impose taxes and make expenditure. Bureaucracy felt supreme during the war and armistice, and is to-day sorely grieved to renounce any of her privileges. Industries dependent for life on the patronage of the State obtained subsidies and favours without embarrassing public debates. Ministers were satisfied with their almost absolute powers.

The Shipping Subsidies Bill furnished at last a test case. June 30, 1921, was the day after which ceased to be effective the decrees of August 18, 1918, and March 30, 1919, giving new ships various subsidies amounting in all, for a 8,000 D.W. tons ship, to the nice sum of 17,000,000 lire. There were, at the date of June 30, 1921, in course of construction, a number of from 50 to 73 ships which, for various reasons, were not completed before the fatal date, and had not a legal claim to the State subsidies. Shipbuilders began to cry on the damage which would be done if ships remained unfinished on the yard, and if thousands of men were put out of employment. Signor Alessio, who was Minister of Trade in the Giolitti Cabinet, felt that a continuation of the subsidies on the old scale was unbearable. Parliament would not have consented to an expenditure of from 850 to 1,240 million lire merely for the sake of shipbuilders, who were well aware that ships unfinished at June 30, 1921, had not the right to receive a single farthing from the Exchequer. But he believed that on the ground of equity a partial subsidy could be given to those ships which were already laid on the yards at June 30, 1921, and for which constructional materials were already on the spot on April 30, 1921. For this sort of ships it may be assumed that shipbuilders had done all their might for completing the construction at the prefixed date, but were impeded by some external cause. A Bill was ac-

cordingly laid by Signor Alessio on the table of the House on June 20, 1921. The subsidies were fixed on a new scale, and for a total sum of 300 million lire.

The fall of the Giolitti Cabinet and the political debates on the programme of Bonomi Cabinet were not favourable to an immediate discussion of the Alessio proposals. Moreover, the new Minister of Industry, Signor Belotti, dropped the Alessio Bill, substituting it with two new Bills, laid on the table of the House on July 26, 1921. Soon afterwards, however, the House rose for recess, and it is not probable that it will meet before November next.

Shipbuilders began again clamouring against the imminent closing of the yards; Socialist deputies insisted that Government should give some aid against unemployment. Signor Belotti took an extraordinary course. As it was impossible to obtain the consent of Parliament before November or December, and as he was afraid to legislate by Royal decrees without some sort of authorisation, he laid the Bills before the two committees of the House, those on finances and on transports, which, according to our legislative methods, are bound to report on Bills to the House as a whole.

Committees of the Italian Chamber of Deputies are composed in exact proportion to the respective importance of various political parties – Liberals, Catholic, and Socialist parties being exactly represented in each committee. If, then, argued Signor Belotti, the special committees of the House give an advice favourable to the Bills, he would be authorised to enact them by Royal decree. The committees, in effect, reported favourably to the first of the Bills, which granted a subsidy of 750 lire per D.W. ton to those ships which, however unfinished at June 30, 1920, had reached at that date a 30 to 40 per cent. stage of completion. The financial burden for the State was estimated at 125 million lire. The decree was accordingly enacted.

On the second Bill, one of the committees felt at first unable to reach a conclusion. The Bill stated that a sum of 200 million lire could be spent by the Ministry of Industry for buying for State account a certain number of ships from among those unfinished at June 30, 1921, if from 500 D.W. tons upwards, and if built to carry men in addition to goods. The Bill was open to various technical objections. Above all, a keen debate arose in the Press about the legitimacy of the new legislative method of enactment after the advice of a House Committee. Committees, it was observed, have not the authority to legislate and of advising Government when Government thinks it urgent to legislate during the recess of Parliament. The



legislative authority is only enjoyed by the Chamber as a whole. Moreover, the Italian Parliament is composed of two branches – the elective Chamber of Deputies and the nominated (for life) Senate. Legislation by decree after advice of a Committee of the Chamber of Deputies amounted, in fact, to a practical abolition of the Senate. Grants of sums to be spent are the most jealous privileges of Parliament; they cannot be transferred to a single committee of a single House.

The debate was not without influence on legislators. The Finance Committee of the House re-examined the matter, and after a lengthy debate refused its assent to the Bill. There matters stand at present. It appears that Government has felt the lesson, and that it will abstain in future from legislation by decrees, as everyone is feeling that it is a short cut to absolute government by bureaucracy.

## 83.

## ITALY

PUBLIC REVENUE – DECREASE IN THE CONSUMPTION OF LUXURIES –  
COST OF LIVING AGAIN INCREASING

Turin, September 26

The official statistics on public revenue are good:

(In Millions of Lire)

	Fiscal Year 1920-21	July and August	
		1920	1921
Income and capital taxes .....	4,067.1	450.7	794.4
Succession and registration duties .....	773.6	115.1	116.0
Stamp duties .....	1,107.8	195.3	315.7
Excise, Customs, and other consumption taxes	1,608.0	191.2	214.7
Industrial monopolies .....	2,744.1	406.7	487.5
Commercial monopolies .....	521.9	59.0	118.8
Lottery .....	151.0	21.7	26.9

83. October 1, 1921, p. 510. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

All categories give an interesting yield; and if we multiply by sixfold the yield of first two months of the current fiscal year, we obtain figures sensibly higher than those relating to the whole of the fiscal year 1920-21. But there are not wanting signs of the economic crisis, especially in those taxes which are liable to feel more immediately the effects of decreasing transactions. In the succession and registration duties category, apart from the succession tax, which is stationary, the registration taxes diminished from 66.8 to 59.4 millions lire in the two months considered, and the yield is much lower than the sum which would be necessary to come up to the 491.7 millions obtained during the whole of last year. Stamps yield 110.2 millions lire more in 1921 than in 1920, but of that increase 76.1 millions lire are due to stamp duty on the increased notes issue and 25.3 millions to the new tax on luxury sales. As in France, this tax is a little disappointing. The tax is exacted by means of stamps to be put on double notes of sale, of which a part is given to customer and a part is retained by the selling party. As the tax is very high – from July 1, 1921, it has been increased from 10 to 11.50 per cent. of the sale price – it appears that very frequently sellers and buyers conspire together, to the loss of the Exchequer, for evading altogether the tax, or inscribing in the note a sum notably less than the true sum paid. A symptom of the economic crisis may be seen also in the lessened yield of taxes on cinema palaces (from 1,897,970 to 1,848,501 lire), on gems and other jewellery (from 3,967,775 to 2,490,465 lire), liquors and fine wines (from 3,859,400 to 1,697,150 lire).

The diminished consumption of luxuries is probably explained by the persistence of the high cost of living in the face of decreasing opportunity of employment, and more or less severe cuts in wages of the working class. The decrease of retail prices was short-lived, as may be seen from the following table compiled by the Turin municipal bureau of labour statistics of the cost of living of the working family (father, mother, and three sons of 10 to 15 years). The basis is fixed in the first half of 1914. (See table at p. 221).

As rent is subject to legal maximums, the variations are those authorised by royal decrees. New occupiers, in fact, are obliged to pay very much higher rents if they desire to secure a house for their family. The increases of rent above the legal maximums are unlawful, even for new occupiers, and house owners are liable to refund them at the request of the occupier. But, in fact, the restitution is never claimed, as the excesses above the maximum are frequently veiled as entrance fee, price of furniture, and so on.

	Food	Clothing	Rent	Fuel and Light	Miscellaneous	Total
Year 1914 (first semester)	100	100	100	100	100	100
1920-January .....	351.0	327.2	100	406.5	344.5	318.5
1921-January .....	513.1	547.3	110	527.3	513.6	467.4
" February .....	509.5	547.3	110	446.5	513.6	460.9
" March .....	536.5	496.7	110	428.4	543.9	472.2
" April .....	534.4	496.7	110	416.9	543.9	470.3
" May .....	521.2	465.2	110	378.0	542.6	455.7
" June .....	485.4	433.4	110	358.8	538.7	429.6
" July .....	446.2	411.4	120	354.2	537.1	404.7
" August .....	461.1	410.6	120	366.9	537.1	413.9

## 84.

## ITALY

## BANKING SITUATION – CLOSING OF SHIPYARDS AT TRIESTE

*From our Correspondent*

Turin, October 10

The following figures of the four big ordinary banks reveal interesting movements in the first half of 1921. (See table at p. 222).

As not all the items of the balance-sheets are comprised in the above statements, the totals do not balance. But the main trend is clear enough. Deposits have continued to increase. The circular cheques are diminishing, though this sort of cheque – *i.e.*, those accepted by the banks at the moments of issue – is the most popular and practically the only sort of cheques freely accepted in Italy. The ordinary cheque is regarded with suspicion.

On the assets side, cash, secured loans, and debtors' accounts are diminishing, to the advantage of discounts and investments. This means a lessening of liquidity, but was perhaps inevitable owing to the prolonged economic crisis and difficulties of sales by merchants and producers.

The unfortunate policy of subsidies to shipbuilding, of which I wrote recently, has had a new development. When Ministers used to pledge the Government responsibility with royal decrees, Signor Alessio, Minister

84. October 22, 1921, p. 624. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



FROM POST-WAR CRISIS TO THE FIRST PERIOD OF FASCISM IN POWER, 1919-1924

(In Million of Lire)

	Banca Commerciale Italiana	Credito Italiano	Banca Italiana di Sconto	Banco di Roma	Total
ASSETS					
Cash:					
December 31, 1920 .....	276.2	420.8	447.5	133.0	1,277.5
July 31, 1921 .....	338.2	317.7	312.6	162.1	1,130.6
Inc. or dec. ....	+ 22%	- 24%	- 30%	+ 22%	- 11%
Discounts:					
December 31, 1920 .....	3,260.2	2,549.3	2,445.6	768.5	9,023.6
July 31, 1921 .....	3,746.4	3,310.6	2,065.2	756.1	9,878.3
Inc. or dec. ....	+ 14%	+ 31%	- 11%	- 1.6%	+ 9.4%
Secured loans:					
December 31, 1920 .....	669.6	332.9	361.9	195.9	1,560.3
July 31, 1921 .....	503.3	297.7	208.9	199.8	1,209.7
Inc. or dec. ....	- 24%	- 10%	- 42%	+ 1.9%	- 23%
Investments:					
December 31, 1920 .....	163.1	102.9	128.0	96.3	490.3
July 31, 1921 .....	156.7	126.4	171.5	137.2	591.8
Inc. or dec. ....	- 3.8%	+ 22%	+ 32%	+ 42%	+ 20%
Debtors:					
December 31, 1920 .....	1,634.5	1,439.9	1,779.4	1,090.8	5,944.6
July 31, 1921 .....	1,446.2	1,317.0	1,766.7	1,233.0	5,762.9
Inc. or dec. ....	- 11%	- 8%	- 0.7%	+ 13%	- 3%
LIABILITIES					
Deposits:					
December 31, 1920 .....	770.2	877.3	939.1	642.8	3,229.4
July 31, 1921 .....	837.8	994.7	926.2	765.5	3,534.2
Inc. or dec. ....	- 8%	+ 13%	- 1%	+ 19%	+ 9%
Creditors:					
December 31, 1920 .....	4,193.5	3,240.4	3,570.7	1,567.4	12,572.0
July 31, 1921 .....	4,562.3	3,772.9	3,542.8	1,701.6	13,579.6
Inc. or dec. ....	+ 8%	+ 16%	- 0.8%	+ 8%	+ 8%
Circular cheques:					
December 31, 1920 .....	193.4	161.4	307.7	105.2	767.7
July 31, 1921 .....	129.5	102.1	194.1	100.1	525.2
Inc. or dec. ....	- 33%	- 36%	- 36%	- 4.7%	- 32%

of Industry, wrote, as it seems, a letter to the Free Shipping Company of Trieste (Navigazione Libera Triestina), amounting to a promise to pay 267 millions lire as a subsidy to the construction of 18 steamships. The basis of subsidy was the hypothesis that ships cost 1,600 lire per d.w. ton to build. The company says that a year ago, when the binding letters were sent, the 1,600 lire basis was very favourable to the State, as prices quoted by other shipbuilders were higher. Signor Belotti, the present Minister of Industry, observed that the letters of his predecessor were not binding

for the State, as they were unconstitutional, and offered to revise the stipulation, so that the State should pay a subsidy proportional to the actual cost of construction, not to the theoretical basis of 1,600 lire. After prolonged discussions the company closed its works, and the workers struck against the company in a so-called protest against reduction of wages. The company plead the impossibility of building ships under the new situation of costs and prices. Public opinion was persuaded, however, that the company resorted to the closing device so as to force the Government to maintain the promised subsidies; and many think that the workers' strike was a sympathetic move to the same end. The strike was accompanied by the usual skirmishes between Communists and *fascisti*, which are especially bitter at Trieste. After a keen struggle, Government and company found a compromise, in virtue of which the subsidy will be paid according to the effective cost of building, to be ascertained by inspection of books and a panel of experts, provided that the said cost does not exceed the maximum sum of 1,455 lire per d.w. ton. The compromise saves to the Exchequer a minimum of 58 millions lire. From this incident the opposition to legislation by decrees and by letters has gained new ground. If the contract between the State and Free Shipping Trieste Company had to be brought before the Parliament, as was the custom in pre-war days, its defects would have probably been noticed by some member. A discussion would have followed, and the loss to the Exchequer would have been less great.

## 85.

## ITALY

DECREASING NOTE ISSUES AND LIRA DEPRECIATION –  
TRADE BALANCE – AGRICULTURAL PRODUCTION

*From our Correspondent*

Turin, October 27

A recent official statement shows how the note issue in Italy has decreased this year. The following are the most up-to-date figures:

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85. November 5, 1921, p. 816. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

(In Million Lire)  
Notes Issued for Account of the

	State	Commerce	Total
December 31, 1920 .....	10,742.7	8,988.9	19,731.6
April, 30, 1921 .....	9,601.2	8,677.0	18,278.0
June 30, 1921 .....	8,722.2	9,436.6	18,158.8
August 31, 1921 .....	8,351.7	9,489.9	17,841.6
September 10, 1921 .....	8,440.0	9,438.0	17,878.0

To the above figures there are to be added two items: 1,867 million lire of State notes (currency notes of 5 and 10 lire) and 277 million lire of small 1 and 2 lire notes. The last account for the State notes relates to April 30, 1921. The total issued is less by almost two billion lire than at December 31, 1920, and the decrease is wholly due to issues on State account, industry and trade being apparently relying in increasing ratio on the bank of issue's aid. Perhaps the economic crisis and the difficulty of sale are forcing companies and private business men to search for banking accommodations; but it is probable that under the disguise of commercial circulation are comprised discounts of Exchequer bills or other loans on State paper.

Notwithstanding the reduction of notes issued, foreign exchanges go up by leaps and bounds. Sterling, which at June stood at 73.51 lire, had risen to 84.30 at July 31<sup>st</sup>, to 93.55 at September 30<sup>th</sup>, and is to-day oscillating about the 100 limit. Dollars went up from 18 to above 25 lire. We are approximating to the maximum of 109 and 30 lire respectively, reached about January and February, 1921. The figures for international trade would not seem to warrant such an evil course, as they are undoubtedly better than last year. For the first five months of the year they are as follows:

(In Million Lire)

	Imports	Exports	Difference
1913 .....	1,522.8	1,039.6	- 483.2
1919 .....	7,098.9	1,635.5	- 5,463.4
1920 .....	6,337.6	3,137.5	- 3,200.0
1921 .....	6,528.0	2,677.6	- 3,850.4

The adverse balance is much greater than in the last pre-war year, but the lira has in the meantime greatly depreciated. As for the 1920 and 1921 comparison, it is to be noted that the 1920 and 1921 are, owing to technical reasons, calculated on the basis of 1919 official values. As in 1920 the real values were much higher than the official values, the real adverse balance must be taken as notably higher than the apparent one. In 1921, however, the experience was inverted; the official 1919 values are probably a



little higher than the real values, so that the real adverse balance may prove to be less than the official figure. In short, it is extremely probable that the present adverse balance is less than in 1920, and so the figures do not provide any reason for the foreign exchanges going from bad to worse.

Perhaps a partial explanation of the depreciation of lira exchange may be found, on the lines of the quantitative theory of money, in the fact that the same or slightly less quantity of paper money is performing less services. The economic crisis has diminished the wages paid and the transactions done with the aid of money. And so the present total of 17,878 million lire (exclusive of 1, 2, 5, and 10 lire currency notes) may be a more redundant quantity than the 19,731 million lire of December 31, 1920.

Probably this theory is true, as far as relates to commercial and industrial activity. But in agriculture the latest statistics published by the Department of Agriculture seem to point to better yields:

	1912-1913 Tons	1920 Tons	1921 Tons
Wheat .....	5,197,200	3,846,600	5,120,000
Rye .....	136,900	115,300	130,000
Barley .....	218,300	127,800	240,000
Oats .....	545,400	351,600	550,000
Rice .....	487,300	451,200	470,000
Indian corn .....	2,546,400	2,268,300	2,400,000
Beans .....	456,400	259,500	400,000
Potatoes .....	1,671,000	1,422,300	1,500,000
Beetroot .....	2,085,800	1,199,900	1,500,000
Hemp .....	84,100	97,800	100,000
Flax .....	2,660	2,300	2,500
Wine .....	4,633,900	4,229,400	3,300,000
Silk cocoons .....	34,100	29,700	30,660

With the conspicuous exception of wine, all other agricultural products are doing better than in 1920, and the figures of 1921 are a symptom of a return to the prewar normal conditions. If we reflect, moreover, on the deep-rooted distrust of the farmers toward Government requisitions and maximum prices, we are led to believe that the figures for 1921 are more understated than the 1912-1913 figures, when no one dreamed that statistical reports would be utilised against the agricultural interest. It does not appear, therefore, that paper money is very much less in request than a year ago for economic transactions. Perhaps, in common with all Europe, Italy is suffering from the widespread fear that the State will not be able to restore the equilibrium in its Budget, and new paper issues will be in future inevitable. If so, only a severe policy of economy and retrenchment will at length reverse the present downward tendency of the lira.

86.

ITALY

COMMERCIAL TREATY WITH FRANCE — POSTAL AND OTHER SAVINGS BANKS —  
THE STATE BANK

*From our Correspondent*

Turin, November 13

The notice that the treaty of commerce between Italy and France, dated November 11, 1898, and renewed in 1907, was renounced by our neighbour, took the Italian public by surprise. Some see in this act a symptom of bad political feelings between the two allies, but the Government explained that the end of the treaty was a matter of course; that the duties of 1898, based on the older tariff of 1887, were out of date, so that it was in the interest of both parties that a new treaty should be negotiated; that France had declared itself anxious to begin at once negotiations for such a new treaty. But it is rather unfortunate that the new treaty is to be negotiated at a time when Protectionist feelings run high in both countries. French and Italian Protectionists have been successful in constructing devices of high efficiency in making war on foreign imports, so that a very difficult task will be put before negotiators.

The place of France in our international trade may be seen from the following table (in millions of lire). (See table at p. 227).

The great increase in the figures from 1920 to 1921 is only an apparent one, as the values for 1920 are calculated on the prices of 1919, while those for 1921 were calculated on the prices of 1920, when the price-level reached a maximum. From France we took 8.4 per cent. of our imports in 1920, and 6 per cent. in the first six months of 1921, and respectively 14 per cent. and 10.3 per cent. of our exports. In 1920 of a total export to France of 1,095 millions lire 316.7 millions were silk and silk manufactures; and it is probable that silk will be a bone of contention between the negotiators.

The economic crisis has made itself felt in banking figures in Italy, only

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86. November 19, 1921, pp. 896-897. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, unentitled but dated "Turin, November 13, 1921", is kept in the Einaudi archives.

	Import from		Export to	
	1920	1921	1920	1921
EUROPE	Whole Year	First Six Months	Whole Year	First Six Months
Great Britain .....	2,368.3	1,315.5	884.3	417.6
France .....	1,333.5	801.6	1,095.3	543.7
Belgium .....	—	209.4	—	79.8
Switzerland .....	336.0	191.8	898.1	582.2
Germany .....	821.5	924.1	380.3	420.0
Austria .....	464.7	343.7	443.9	428.9
Czecho-Slovakia .....	184.0	130.1	75.1	33.2
Jugoslavia .....	—	194.5	—	244.2
Greece .....	45.2	18.6	160.5	119.6
Spain .....	139.6	78.3	139.9	75.5
Egypt .....	101.7	83.6	235.4	81.4
Tunis .....	81.3	110.3	50.9	19.2
Tripoli .....	21.8	14.1	68.4	44.3
Eritrea .....	—	10.1	—	16.5
British India .....	744.9	570.8	160.3	54.1
Argentina .....	1,676.7	727.7	419.1	238.1
Brazil .....	275.2	328.4	154.4	61.3
United States .....	4,788.5	5,150.9	655.1	676.8
Other countries .....	2,487.6	2,251.0	1,983.0	1,145.3
Total .....	15,870.5	13,454.5	7,804.0	5,281.7

in the shape of a decline in the rate of increase in deposits of savings banks. The two years of greatest monetary inflation, 1919 and 1920, were also the years of greatest increases in the deposits of the savings banks. Unemployment and reductions of wages began to have an effect in 1921, and if it were possible to separate urban and country deposits it would be found that the urban deposits have positively decreased, while country deposits have continued in their expansion, owing to very good agricultural prices.

Postal saving deposits go to swell the budget of our greatest bank — a bank not known to the outside world, and somewhat akin to the Prussian Seehandlung, but without the connections which the Seehandlung has with other banks, and with Exchange activities. Our Cassa Depositi e Prestiti — Public Bank for deposits and loans is a State Bank, which receives deposits mainly from Postal Saving Banks, public insurance institutions, individual accounts, and so on.

The principal items of the liabilities side of the last two balance-sheets for the year ended December 31<sup>st</sup> are compared below:

	(Million Lire)	1919	1920
Direct deposits .....		433.8	472.9
Current account of State Treasury .....		316.8	342.6
" of the Bank of Italy .....		20.6	20.0
" of the Postal Department .....		16.2	41.4



Miscellaneous accounts .....	143.9	183.5
Postal savings banks and insurance institutions .....	5,270.4	7,109.8
Trustee funds .....	157.7	174.0
Reserve .....	189.4	535.2

An interesting feature of these figures is the increase in the reserve of the bank, a useful item in these times of depreciation of securities. The bank specialises in loans to State, State institutions, provinces and municipalities. We in Italy have not a market for municipal securities, and only a very few of them are quoted in the public exchanges. Municipalities do not come on the market for supplying themselves with capital, as they can claim the aid of the Cassa Depositi e Prestiti.

The following are the principal assets of the State Bank:

	(Million Lire)	
	1919	1920
Public securities (mainly State, but also special municipal securities) .....	3,917.2	5,791.4
Loans to provinces and municipalities .....	1,125.2	1,707.3
Loans to State Treasury .....	671.6	587.5
Current accounts with public authorities .....	522.3	614.4
Loans to public employees .....	11.4	22.9

The loans (by purchase of securities and direct loans) to State and municipalities reached in 1920 the huge total of 2,464.3 millions lire. It is a safe conclusion that if the deficit of State and local budget could be compressed within the limit of not over 2,000 millions lire yearly, it would no more be necessary to come on the market with new Exchequer bills or other State securities.

## 87.

### ITALY

#### THE BUDGET SPEECH

#### *From our Correspondent*

Turin, December 10

On December 8<sup>th</sup>, Signor De Nava, Minister of Finance, made his Budget speech in the Chamber of Deputies. By statute he was bound to

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87. December 17, 1921, p. 1068. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Budget speech in Italy" and dated "Turin, December 10, 1921", is kept in the Einaudi archives.

review the past fiscal year 1920-21, the current year 1921-22, and the coming year. For the year ended June, 1921, it was estimated in December, 1920, that there would be a deficit of 12,141 million lire, the difference between 22,947 million lire expenditure and 10,806 revenue. In the final accounts, the figures were greatly changed; expenditure rose to 28,783 million lire and revenue to 18,071 millions, so that the deficit was reduced to 10,712 millions. For the present year there was an estimated deficit of 10,370 million lire. But in July the Treasury Minister was able to announce to Parliament that the estimated deficit was to be only 5,000 million lire, thanks mainly to the discontinuance of the bread subsidy. The results of the first quarter of the fiscal year, from July 1<sup>st</sup> to October 30<sup>th</sup>, confirm that the deficit will be about 5,000 million lire, in spite of a rise of 1,750 million lire in revenue, which should have reduced the deficit to 3,250 million lire. But the rise in expenditure is swallowing up all increase in the revenue.

In the next fiscal year, 1922-23, the expenditure is calculated at 18,525 million lire and the revenue at 15,763 millions, with an estimated deficit of about 3,000 million lire. The Minister might have safely estimated that the deficit will be wiped out next year, as there is no reason why the revenue should amount only to 15,763 million lire, having in the past year risen to 18,071 millions, while in the present one it will probably touch 19,000 million lire. The Minister evidently supposes that expenditure also will rise, and will absorb the surplus of effective revenue upon estimates. The situation is undoubtedly improving, as the deficit has diminished from 11 to 5 and to 3 billion lire in three successive fiscal years. A good feature, which is worth noting, is that the Treasury does not put on the revenue side any figure from war indemnities. If indemnities are paid, so much to the good. It is probable that the 11 billions deficit of 1920-21 was less than the true deficit, as various State administrations had a separate current account with the Treasury, and their deficit did not enter into the general Budget; while the Minister has assured the Chamber that the 5 and 3 billions deficit of the current and next financial years are the true net results of all public administrations, all separate accounts being from July 1, 1921, thrown, as of old into the general Budget.

The debt situation is as follows (in billion lire). (See table at p. 230).

The external debt, which was non-existent before the war, increases slowly as unpaid interest accumulates with the capital. The items are calculated at the par of exchanges; and if we estimate them at the current rate of exchanges, the figure should probably be put at about 90 billion lire, a sum equal to the internal debt, and an over-powering burden for the Italian tax-

	July 31, 1914	June 30, 1919	Oct. 31, 1920	Oct. 31, 1921
Perpetual and long-dated debts .....	14.8	28.4	48.9	49.3
Exchequer bills .....	0.4	15.0	10.7	23.0
3, 5, and 7 year bonds .....	—	5.7	4.6	5.7
State and bank notes .....	0.5	8.6	12.7	10.6
Deposit and loans State Banks .....	—	0.5	0.6	0.6
Total internal debts .....	15.7	58.2	77.5	89.2
External debts .....	—	19.2	20.6	21.0
General total .....	15.7	77.4	98.1	110.2

payer. Public opinion has not lost the hope that the *Economist's* thesis of the total cancellation of the inter-Allied debts will ultimately prevail; as, otherwise, all hopes of balancing budgets are lost and total confusion will prevail in our financial and monetary situation.

Notes (paper money) issued directly by the State or indirectly by the issue banks for the account of the State are less by 2.1 million, having fallen from 12.7 to 10.6 billion lire. The significance of this is, however, somewhat obscured by the rise of the so-called issues for the account of commerce, which rose from 8,230 million lire at September 30, 1920, to 9,775 million lire at September 30, 1921, a rise of 1,545 million lire. If we deduct this rise of the notes in circulation for the account of commerce from the decrease of 2,100 millions lire in the circulation for State account, we have a net decrease of 600 million lire. But the picture is marred by the great increase in the figure of outstanding. Exchequer bills, which have risen during the year from 10.7 billions to the utterly unmanageable sum of 23 billion lire. As the longest dated are one-year bills, and a large amount is maturing from day to day, the State is liable at a moment's notice to convert them into cash; with the risk of a rise in the note circulation. The gist of the speech is that we are laboriously groping toward the light; that the revenue is coming on very well; but that a very great effort is to be made toward curtailing the growth of expenditure. If the Treasury should succeed in the task of checking this growth, the port of rest for our financial ship would be within easy reach.



## 88.

## ITALY

THE DEBT CHARGE – BANKING DEPOSITS –  
STOCK MARKET DEPRESSION*From our Correspondent*

Turin, December 24

From the vast mine of the appendices to the Budget speech, which have been circulated only to-day, it is possible to add various interesting facts to my last letter. The figures of the annual charge on the public debt are as follows:

	(Millions of Lire)		
	1913-14	1920-21	1922-23 (Estimate)
Perpetual debt .....	359.6	2,097.9	2,082.5
Redeemable debt .....	89.3	157.4	155.3
3, 5, and 7 years' bonds .....	38.3	261.9	265.0
Other long term bonds .....	31.3	25.8	24.5
Exchequer bills .....	10.0	575.0	1,500.0
Current account .....	2.1	71.4	77.4
Internal debt .....	530.8	3,189.4	4,098.7
External debt .....	—	972.0	1,100.0
Total .....	530.8	4,161.4	5,198.7

The sum inscribed under the head of external debt is only figurative, as the interest is accumulating from year to year on the debts towards Great Britain and United States. If these debts were to be repaid, their repayment would absorb a great deal more in paper money, as the 972 millions for 1920-1921 and 1,100 millions for 1922-1923 are in gold lire.

Deposits in banks (issue and ordinary) and in savings banks are increasing, as the following figures show:

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88. December 31, 1921, pp. 1157-1158. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, unentitled but dated "Turin, December 24, 1921", is kept in the Einaudi archives.

(Millions of Lire)

End of June	1914	1915	1919	1921
Banks of issue .....	100.0	649.6	774.5	996.8
Ordinary banks .....	1,044.6	664.8	3,447.6	5,612.5
Popular and co-operative banks .....	1,211.3	1,010.8	2,661.1	3,665.7
Savings banks (ordinary) .....	2,800.3	2,552.4	5,589.2	7,475.8
Postal savings banks .....	2,121.3	1,861.7	4,223.7	7,869.4
Pawn banks (Monti di Pietà) .....	214.5	220.0	457.4	553.7
Rural banks .....	103.7	96.9	282.0	444.4
	7,595.4	7,056.2	17,435.5	26,618.3

The middle of 1915 was the moment of maximum panic and of reduced deposits. But thereafter deposits went on increasing year after year. It may, however, be observed that deposits have only increased about  $3\frac{1}{2}$  times, as compared with the pre-war figure, whereas the purchasing power of the lira is only one-fifth of what it was before the war. If deposits had multiplied in the same ratio as the lira depreciated, the sum total of deposits should have increased to about 38 billion lire, instead of to 26. But we have to reflect that, upon a total sum of 26.6 billion lire of deposits at June 30, 1921, upward of 21.7 billions were savings deposits and 4.8 current accounts. In Italy only these last are truly banking deposits of the trading and financial classes. The savings deposits are derived from the middle, employee, and working classes, and are apt to reflect the pinch of high cost of living. As this cost has risen from 100 in 1913 to about 500 in 1921, it is interesting to find that these classes have maintained a sufficient margin for saving. It is also interesting to observe that the greater volume of deposits is not accumulated in the ordinary or issue banks, but in co-operative or public banks. Only 6,609 million lire are deposited with the issue and ordinary banks, 20 billions being under the patronage of the co-operative and public banks. This is an element of stability in the financial situation of Italy. In the last two weeks we have heard much of disastrous results of some giant companies, such as the well-known Ansaldo and Ilva iron and steel concerns. Shareholders' meetings were summoned to hear a story of capital wholly or almost wholly dissipated. Share quotations dwindled, to the despair of unfortunate holders. Much loose talk was heard about the consequences of the winding-up of concerns of such magnitude on the creditor banks; and a consortium was formed, under the Bank of Italy's guidance, for guaranteeing the Banca Italiana di Sconto, which, however solid, was known to the public as the Ansaldo's patron, against the peril of a rush by depositors. Amid all these rumours, the foundations of Italian

credit remain unshaken, as depositors of popular and savings banks are sure that their savings are invested by their old-fashioned institutions in acquiring bills of the surest description and moderate amount, and securities gradually written down to current prices. The stock exchanges are, however, closing the year in a very pessimistic temper, as they are feeling acutely the influence of the bad news relating to Ansaldo and Ilva companies. The public which has bought these iron and steel shares at 300 lire and upward and sees them to-day quoted at 45 and 16 lire, with a downward tendency, is shy of the share market.

## 89.

## ITALY

## BANCA DI SCONTO'S MORATORIUM – FEATURES OF THE CRISIS

*From our Correspondent*

Turin, January 7

After my last letter of December 24<sup>th</sup>, the story of the Banca Italiana di Sconto has filled the columns of all Italian newspapers, and may be chronicled thus: – On December 26, 1921, the Minister of Industry signed a decree limiting Stock Exchange transactions to cash dealings. While the general public were puzzled, those with inside knowledge said that Banca Italiana di Sconto's shares were pouring into the market, and a precipitate fall was threatening. The Government were clearly of opinion that speculative sales, with the consequent breakdown of prices, threatened a panic among the depositors, and accordingly stopped them. On December 27<sup>th</sup>, the newspapers reported meetings at Rome between representatives of the Government and the banks. It appeared that the figure of 600 million lire fixed as the capital of the banking consortium for the demobilisation of the Banca Italiana di Sconto was insufficient. Foreign depositors, and also some big Italian depositors, took alarm, and began hasty withdrawals. Several million lire were employed in supporting the market for the Banca's shares. On the same day an authoritative statement by Signor

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89. January 14, 1922, pp. 51-52. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Banca italiana di sconto's moratorium chronicled. Feature of the credit crisis", dated "Turin, January 7", is kept in the Einaudi archives.



Parodi, counsel to the Banca Italiana di Sconto, explained that an agreement was finally reached that the sum necessary to put the Banca on its legs could only be furnished by the State or by the banks of issue acting on behalf of the Treasury. On December 28<sup>th</sup>, Cabinet Ministers discussed the position, and decided to come to the rescue; the Government could have authorised the Bank of Italy to give to the Banca Italiana di Sconto sufficient advances to face the inevitable run; but they came, as they were bound to come in the public interest, to the sound conclusion that direct assistance from the Bank of Italy would be unjustifiable. It would only mean that taxpayers would have to pay for private faults or misfortunes. On December 29<sup>th</sup>, the *Gazette* published a Royal decree authorising the concession of a special "moratorium" to all joint-stock companies and cooperative credit societies with a capital of not less than 5 million lire which could prove inability to pay creditors owing to extraordinary and unforeseen events, or in cases where a moratorium might be in the creditors' interest.

As soon as the Royal decree was published, Signor Pogliani, general-manager of the Banca Italiana di Sconto, tendered to the Civil Tribunal of Rome a request for the concession of the moratorium, urging that the bank had assets largely in excess of liabilities. The tribunal, in the night, after a long discussion, accepted the request, and granted a moratorium up to December 30, 1922. On December 30<sup>th</sup>, another decree of the Minister of Industry postponed to January 4, 1922, the monthly Stock Exchange settlement which should have taken place on December 31, 1921. It appeared that some 60,000 shares or more of the Banca Italiana di Sconto had been sold for December and January settlement; but it was feared that buyers would not pay for them when duly tendered by sellers. The principal buyer is, it is said, the Banca Italiana di Sconto; not, indeed, directly, as the Italian law forbids joint-stock companies to acquire their own shares, but indirectly, through the agency of the Banca Italo-Caucasica, whose capital was wholly subscribed by the former. On January 3<sup>rd</sup> the Tribunal of Rome expressly forbade the Banca di Sconto from paying the sum needed to settle the Stock Exchange purchases of its own shares either directly or indirectly. Up to the moment of writing, the settlement, already postponed to January 4<sup>th</sup>, is not completely effected. A great many brokers in all the Italian bourses have been parties to sales of Banca di Sconto's shares, and are unable, owing to the default of the buyer, to fulfil their obligations toward their seller. It is a matter of 30 millions, and it is hoped that a voluntary consortium may be formed to carry over this unfortunate deal. The Government has very wisely declined to accept liabilities in a matter which only interests a number of professional Ex-

change men. Another decree, of the same day, changed from the permissive to the compulsory the substitution of the former directors by Judicial Commissioners when a moratorium is requested. The directors of the Banca Italiana di Sconto are therefore obliged to abandon the bank, and their assets are, moreover, put under seizure. The Tribunal of Rome used strong expressions to describe the directors' conduct: — "Serious and systematic mistakes", "risky financing methods", "favouring industrial concerns not worth financing", "mistaken interest taken in enterprises apt to produce great losses", "disastrous situation of the bank". On January 5<sup>th</sup>, the Mediterranean Lloyd Navigation Company preferred a request for a moratorium to the Civil Tribunal of Rome. This company is a creature of the Banca Italiana di Sconto.

Perhaps the time is not yet ripe for a careful and reasoned judgment of the crisis. But three observations may be made. The first is, that in Italy economic education has advanced not a little, as will be realised by those who remember the great outburst of public opinion in the old days of Tiberina, Esquilino, Credito Mobiliare, in the early nineties. The public opinion and Government were unanimously in favour of stopping the crisis with generous use of public money. The liberal advances to private concerns and banks were the first and foremost cause of the subsequent crisis in the public banks of issue. Nothing of the sort has happened to-day. The Government encouraged in an early stage, when they hoped the crisis might be averted, the formation of the 600 million lire consortium, whose advances were, I am informed, covered by adequate assets. But when the position appeared untenable, further assistance, at the expense of the taxpayer, was refused; and Ministers will certainly stand by their decision. Secondly, it may be doubted whether the resurrection of the moratorium was a happy one. Professor Sraffa, in a letter to Professor Cabiati, says that at most the moratorium should have been confined to the Banca Italiana di Sconto, and not extended generally to all embarrassed companies. Thirdly, the public has accepted the disagreeable notice of doors closed by one of the four big banks with great calm. Throngs at other banks were not noticeable, and if a little stream of depositors was seen requesting reimbursement during the two or three days following the announcement of the moratorium, it had ceased wholly by January 3<sup>rd</sup> or 4<sup>th</sup>. In the great savings banks the paying in of deposits continued. As I explained in my last letter, out of a total of 26.6 billion lire of deposits at June 30, 1921, only 6.6 billions are entrusted to ordinary banks, and upwards of 20 billions to co-operative and public or quasi-public savings banks. Given our social and economic conditions, this distribution of deposits is perhaps the greatest asset of our credit fabric.

## 90.

## ITALY

BANKING — FOREIGN EXCHANGES —  
THE LIRA'S EXTERNAL AND INTERNAL VALUE  
*From our Correspondent*

Turin, January 22

No further important news is to hand as regards the Banca Italiana di Sconto affair. Two or three minor banks have closed their doors in consequence of the Banca's moratorium, but the effect is hardly noticeable. It appears that several plans for the reconstruction of the Banca have been submitted to the Government for approval, but no definite decision has been arrived at. The Ilva iron and steel company shareholders, after inquiring into the loss of their capital, have come to the conclusion that it was inexpedient to prosecute past directors, and was better to accept a formal offer from the same directors of a payment of 30 million lire. Notwithstanding these and other bad incidents of the crisis, the impression is gaining ground that the worst is passing.

Some interesting financial data are contained in the new edition of "Prospettive Economiche", by Professor Giorgio Mortara. Professor Mortara studies the relations between the internal and external buying power of the lira. At first sight the situation is not bettered, perhaps is yet worsening. Exchanges continue very much against Italy, as is seen from the following table of average monthly prices at the end of half-years:

		Dollars	100 Swiss Francs	Pound Sterling	100 French Francs
Parity .....	lire	5.18	100	25.22	100
June, 1914 .....	"	5.16	100.22	25.27	100.33
December " .....	"	5.30	101.60	25.88	103.31
June, 1918 .....	"	9.10	230.70	43.75	161.02
December " .....	"	6.34	130.00	30.37	116.25
June, 1919 .....	"	8.05	151.32	37.33	125.43
December " .....	"	13.07	241.67	50.08	121.92

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90. January 28, 1922, p. 129. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, unentitled but dated "Turin, January 22, 1922", is kept in the Einaudi archives.



June, 1920 .....	"	16.89	308.98	67.14	133.74
December " .....	"	28.57	441.02	99.79	169.65
June, 1921 .....	"	19.84	339.40	75.63	161.51
December " .....	"	22.70	439.85	94.00	177.10

If not quite at its worst, the lira remains gravely depreciated. The value of the lira in terms of the gold lira has moved thus: – December, 1914, 98 per cent.; 1915, 79 per cent.; 1916, 76 per cent.; 1917, 62 per cent.; 1918, 82 per cent.; 1919, 40 per cent.; 1920, 18 per cent.; 1921, 23 per cent. Fortunately, it seem that the two levels – internal and external – for the buying power of the paper lira are approximating. Thanks to the decrease of prices in the United States, the lira purchases more goods there than a year ago. Professor Mortara has calculated the weight which a given sum of money could acquire in 1913 and in September, 1921. Making 100 the weight acquired in both markets in 1913, with a given sum of lire, the same sum acquired in September, 1921, the following weights:

In Italy		In the United States	
Wheat .....	23	Wheat .....	17
Indian corn .....	20	Indian corn .....	25
Wine .....	15	Sugar .....	17
Olive oil .....	16	Petroleum .....	23
Butcher cattle .....	15	Calf skins .....	29
Butter .....	14	Coal .....	13
Raw wool .....	23	Raw wool .....	22
Raw hemp .....	19	Raw cotton .....	14
Raw silk .....	14	Pig-iron .....	17
Sulphur .....	17	Steel .....	20

As far as these scattered data go, it seems that the buying power of the lira is reduced to a fifth part of 1913. And the reduction is not very much different in the two markets. If that is a true picture, equilibrium ought not to be a very distant hope, and when it is attained, the stabilisation of the foreign exchanges would no longer seem an impossible dream.

91.

ITALY

CABINET RESIGNATION – POLITICAL CRISIS –

BANCA ITALIANA DI SCONTO

*From our Correspondent*

Turin, February 11

H.M. the King has invited the Premier, Signor Bonomi, and the Cabinet to obtain an open vote from the House of Deputies. This was the end of an extraordinary performance of the numerically strongest party in the House, the democratic party, which, at the eve of the reopening of Parliament, due for February 2<sup>nd</sup>, declared by a sudden caucus vote a want of confidence in the Cabinet. Out of a total of 535, the democratic party number about 150 votes, the popular (Catholic) party 110, the Liberal (Conservatives, Nationalists, and Fascisti) party about 70, while the Socialists are 125, the Communists 15, and the other little parties (Agrarian, Social Democrats, & c.) about 65. No Cabinet can live without a coalition between Democratic, Popular, and Liberal parties, or Democratic, Popular, and Socialist, yet no one party is willing to submit to the necessity of a compromise with other parties.

The move of the Democratic party against Signor Bonomi's Cabinet was engineered, as it appears, by Signor Giolitti's followers. But, when Signor Bonomi resigned, the Popular (Catholic) party, which were greatly incensed by the rupture of the alliance, pronounced against a Giolitti Cabinet. So it happened that neither Giolitti, nor De Nicola, Speaker of the House, nor Orlando and Meda, have dared to form a new Cabinet. In the end, the King was obliged to refuse the resignation of the Bonomi Cabinet, so that the House can, by an open vote, express its wishes and opinions. General elections would not mend the matter, as the existing proportional system of election does not allow sudden changes in the composition of the House; and the swing of the pendulum is almost without effect.

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91. February 18, 1922, pp. 281-282. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Cabinet resignation. A difficult political crisis. Banca italiana", dated "Turin, February 11", is kept in the Einaudi archives.

Discontent against Bonomi's Cabinet had manifold origins. The conclusions of the Cannes Conference were displeasing to a section of Italian public opinion, which appeared to think that Italy was ignored when Great Britain and France were concluding a pact of alliance between themselves.

Irritation against the popular (Catholic) party, which has obtained the introduction of a Bill purporting to establish the so-called freedom of education, but in reality giving to the private (Catholic) schools the right to be the legal centre of final examination in secondary education. Last, but not least, the Banca di Sconto moratorium. Newspapers and political circles are, after December 29, 1921, full of stories about the cause of the fall of the Banca di Sconto, and the inability of the Government to come to the rescue. The Government has done all in its power to bring the affair to a satisfactory conclusion. The judicial commissioners have circulated a scheme on the following lines: — The Banca Italiana di Sconto is to go into liquidation. A new Banca Nazionale di Sconto is to be formed with a capital of 270 millions lire, of which 150 millions are to be subscribed by creditors of the old Banca di Sconto with 7 per cent. of their credits, and 120 millions by the ex-directors. The capital may be successively raised to 420 millions with an option to creditors to subscribe the increase.

Deposits will be repaid to creditors on the following basis: 1) Creditors up to 1,000 lire will be fully repaid after a month; 2) creditors between 1,001 and 5,000 lire will receive 70 per cent. of their credits not later than December 31, 1922; 3) creditors of upwards of 5,000 lire will receive 60 per cent. in instalments up to December 31, 1923. For the unpaid 30 or 40 per cent., a scrip will be given to creditors, which gives a right to the distribution of the assets of the old Banca eventually remaining after payment of the above instalments. The creditors' representatives are not satisfied with the scheme, and claim the aid of the Government. Political parties, unmindful of the public interest, have caught up the problem as a weapon against the Government.

But how the creditors of the Banca di Sconto can be given more than the above scheme proposes to give, *i.e.*, all that can be realised from a winding-up of the assets, without laying an unjust burden on taxpayers, is difficult to see. It is, therefore, to be hoped that the Government, which will be formed after the vote of the House of February 16<sup>th</sup>, will do nothing prejudicial to the public exchequer.



92.

ITALY

POLITICAL CRISIS –

FINANCIAL SITUATION: EXCHANGE FALLING AND CONSOLS RISING –

LEVY ON CAPITAL

*From our Correspondent*

Turin, February 25

The debate in the House of Deputies ended in an over-whelming vote against Signor Bonomi's Cabinet, but the renewed efforts of Signori Giolitti, De Nicola and Orlando to form a new Cabinet were fruitless. Signor Giolitti encountered the veto of the popular (Catholic) party, and De Nicola and Orlando refused to give their support to Giolitti in the building up of a strong coalition. At the bottom the struggle is against Signor Giolitti, the old man, who for a long time was supreme in the Government of Italy, and without whose consent no one ever dared to form a Cabinet, and against whom no one revolted, save Signor Salandra on the memorable event of the declaration of war against Austria. But for this very reason Signor Salandra was ostracised. The man who has set his face against Giolitti and vetos his return to power is a Sicilian priest, Don Sturzo, the organiser of the popular party. A little, nervous, indefatigable man in his forties, Don Sturzo is the soul and inspiration of the Catholic party, and keeps his party under an iron hand.

In the meantime, Signor Bonomi, who remains in charge until the appointment of his successor, was obliged to postpone for a few days or weeks the Genoa Conference perhaps interpreting the secret wishes of the Premiers of Great Britain and France.

The absence of a Government and the Banca di Sconto's crisis have not been obstacles to a marked betterment in the Bourse situation. A beginning was made by the reduction from 6 to 5½ per cent. in the rate of in-

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92. March 4, 1922, pp. 454-455. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Political crisis. A Sicilian priest against the old dictator. Betterment of the financial situation: exchanges falling and consols rising. The new decree on the levy on capital", dated "Turin, February 25", is kept in the Einaudi archives.

terest on nine-twelve months' Exchequer bills. The rates on three-five and six-seven months' bills were reduced respectively to 4.75 and 5.25 per cent. This move of the Treasury was the consequence of the improved situation of the public Exchequer, whose liquid funds passed, as may be seen in the last accounts, published February 17<sup>th</sup>, from 2,173 million lire at September 30, 1921 to 2,932 millions at October 31, 1921.

However much we may regret the delay in publication, these figures are a testimony to an improving situation. The difference between the public income and public expenditure, which in July, 1921, was 145.5 million lire, in August 195.2 and in September 521.2 on the wrong side, was in October 17.1 millions on the right side. The average monthly deficit, from July to October, was 212 million lire, or at the rate of about 2,500 million lire for the whole year. The Bourses at once instinctively felt the beginning of the improvement, and the hope that an end will at last be put to the usual huge increase of public debt sufficed to give new life to prices. Senator Wollemborg has recently calculated that public debt of all classes reached at December 31, 1921, the sum of about 120 billion lire, including 21 billions of external debt, taken at the par of exchanges. If the increase had continued at the rate of 12 billions a year there would have been little hope of salvation, but the efforts to put new burdens on the shoulders of taxpayers are bearing well-won fruits: 5 per cent. Consols rose in a few days from 75 to 78-79, and 3½ per cent. from 72 to 74. Foreign exchanges are falling: pounds sterling from 95-96 to 87-88, dollars from 24 to 20, Swiss francs from 450 to 390, and the tendency is towards lower quotations.

A new Royal legislative decree was published in the *Gazzetta Ufficiale* of February 15<sup>th</sup> modifying the extraordinary levy on capital. No changes are made in the sections relating to foreigners having possessions in Italy. They remain subject to the levy. A new term is fixed for compulsory declaration of assets for all taxpayers, who have not as yet sent their declaration or who had sent an incomplete or inexact one: June 30<sup>th</sup> for residents in Italy, July 31<sup>st</sup> for residents in Europe, and August 31<sup>st</sup> for non-European residents. The declarations in foreign countries may be sent to Italian Consulates. As the decree contains many new regulations about valuations of land, houses, and securities, and gives reductions for immediate lump payment of the tax, I think that foreigners, who are taxpayers in Italy, should carefully read this legislative decree, which is dated February 5, 1922, and bears the number 78 of the official series of laws and decrees of 1922.

93.

## ITALY

PROPOSED TAX ON BEARER SECURITIES – DUTY ON WHEAT POSTPONED –  
BANCA DI SCONTO AFFAIRS – STATE REVENUE

*From our Correspondent*

Rome, March 26

The new Finance Minister, Signor Bertone, has laid on the table of the House of Deputies a Bill imposing a tax of 15 per cent. on the dividends of State bearer securities. If a bondholder desires to be exempted from the tax, he can do so by inscribing the security to his name. If accepted by Parliament this Bill will put an end to the compulsory inscription of all securities. Signor Giolitti had made compulsory inscription one of the chief items of his financial programme, and by the Law of September 24, 1920, the principle was formally introduced into our legislative code. Signor Giolitti foresaw many good results from its adoption, of which the chief was the certainty that taxpayers could no more escape succession tax, capital levy, and income-tax. Having securities inscribed to their name, taxpayers would be obliged to fill in tax forms correctly, whereas at present the custom of omitting bearer securities altogether is prevalent.

Joint stock companies have been unable to issue new shares, for no capitalist would touch an inscribed share. Unfortunate subscribers to such shares cannot get rid of them, for they are unsaleable, and no bank would think of making advances upon them. In Italy the public is bent on having bearer securities, and the methods of transferring inscribed shares are clumsy and costly. The Treasury found itself obliged to recognise facts, for it was impossible for the State to issue Consols or other bonds liable to the compulsory inscription. The only State security which has a market is the seven-year Exchequer bonds, as these were, by the Law of September 24, 1920, exempted from compulsory inscription. At last the Govern-

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93. April 1, 1922, p. 627. The article, unsigned and dated Rome, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is uncertain. The argument and its treatment bear similarities with two Einaudi's articles in *Il Corriere della Sera* (January 19 and March 23, 1922) entitled respectively "Il rinnovato problema del pane" and "Le proposte sulla nominatività".



ment has yielded to the lesson of hard facts, and the new Bill, while maintaining the principle of compulsory inscription – the present Cabinet is made up by Giolitti followers and a formal renunciation of a cherished shibboleth of the old chief was impossible – authorises every possessor of State or private securities to keep them in bearer form if they will submit themselves to a 15 per cent. tax on the dividends. Foreigners and Italian residents abroad will have also to pay the tax if they object to technicalities of the inscription. The new tax will not be favourable to the easy marketing of Italian State securities.

A recent decree has postponed to July 1, 1922, the duty on wheat, which was suspended during the war and was to be re-established on April 1, 1922. The duty is 7.50 gold lire, corresponding to about 30 paper lire per quintal. As the price is to-day about 110 lire, the duty would have added from 25 to 30 per cent. to the bread price. It seems unlikely that the duty on wheat will be eventually restored, as the Socialist and popular parties are obliged to oppose it. Perhaps this will be the beginning of the wane of protectionism. Agricultural interests will feel more and more aggrieved by high duties on implements, machinery, and textiles not counter-balanced by protective duties on agricultural products.

The affairs of the Banca Italiana di Sconto are stationary. By a decree of the Roma Tribunal a balance-sheet dated December 31, 1921, has been published in which the assets are estimated at 4,929.2 millions lire, and the liabilities (exclusive of capital and the reserves) at 5,916.7 millions lire. Of these 1,673.7 are privileged, so that only 3,255.5 millions are left to be shared among 4,243 millions lire of ordinary credits. The various classes of creditors and employees, though divided among themselves, are bent on obtaining the maximum aid from the banks of issue and the public Exchequer. It is not known exactly what shape State aid will take.

A recent official report states that the public revenue for the first eight months of the financial year 1921-22 (July to February) was 8,425 millions lire, against 7,016 millions lire for the corresponding months of 1920-21. The tax yield for the whole year can be estimated at 12,500 millions lire, against 2,500 in 1913-14. Adding about 2,500 millions lire paid to provinces and municipalities, we reach a sixfold increase on the pre-war year. As the purchasing power of the lira has been only reduced to one-fourth or one-fifth of its pre-war value, it appears that taxation has more than kept pace with the increase in paper incomes.

94.

ITALY

BANCA DI SCONTO – STATE RAILWAY MATERIAL – CIRCULATION –  
CLEARINGS – BANK OF ITALY – SECURITY AND COMMODITY PRICES

*From our Correspondent*

Turin, April 30

The affairs of the Banca Italiana di Sconto are nearing the end. A decree of the Rome Civil Tribunal has given consent to a plan, which gives creditors 58 and 65 per cent. of their credits at various stated dates before December 31, 1923. On the ashes of the "Sconto" will arise a new Banca Nazionale di Credito, which will be, however, primarily a concern charged with the winding-up of the parent.

The Government has laid on the table of the Chamber a Bill authorising State railways to order 1,750 millions lire worth of railway materials in the next five years. No objection can be raised against the principle of preparing a plan of railway reconstruction. But rumour is current that the 1,750 millions lire order will be exclusively given to the Ilva concern, where work is scarce and there are fears of increasing unemployment. It is also stated that the Government will renounce several hundred millions of excess profits tax due from "Ansaldo", for the same purpose of preventing the closing up of their shops. The peril is that, if these rumours prove true, there will be a scramble on the part of manufacturers and traders to obtain similar favours.

The most important event of the month, from the point of view of economic students, has been the issue of the annual report of Signor Stringher to the shareholders of the Banca d'Italia. He gives the following figures of circulation of the three banks of issue and of the State. (See table at p. 245).

The figures testify to a laudable effort to keep constant the amount of total issues. The increase at December 31, 1921, was obviously due to fears of panic consequent on the closing up of Banca Italiana di Sconto, but as nothing happened notes have come back to the issuing banks. With the

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94. May 13, 1922, pp. 905-906. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, unentitled but dated "Turin, April 30", is kept in the Einaudi archives.

(In Millions of Lire)

Banking Issues					
	Commercial	For State Account	Total	State Notes	Total
December 31, 1918 .....	4,584.7	7,165.6	11,750.3	2,124.1	13,874.4
"    " 1919 .....	5,651.6	10,629.7	16,281.3	2,271.3	18,552.6
June 30, 1920 .....	7,483.9	10,333.1	17,817.0	2,270.3	20,087.3
December 31, " .....	8,988.9	10,742.8	19,731.7	2,269.3	22,001.0
June 30, 1921 .....	9,436.6	8,722.2	18,158.9	2,268.4	20,427.3
December 31, " .....	10,704.1	8,504.8	19,208.9	2,268.3	21,477.2
February 20, 1922 .....	9,507.9	8,643.7	18,156.6	2,268.3	20,419.9

progressive liquidation of State wheat, coffee, meat, and other enterprises the issues for account of the State are diminishing, with a corresponding increase in the commercial circulation. Clearings have continued to increase in 1921 as against preceding years:

(In Millions of Lire)

## Sums Cleared

1913 .....	53,711.3
1916 .....	59,307.2
1917 .....	159,695.2
1918 .....	182,193.4
1919 .....	259,319.9
1920 .....	519,916.6
1921 .....	649,481.8

The statistics relate to the Clearing Houses of Genoa, Milan, Rome, and Florence. For 1921 the figures for Trieste are added. However, the total Trieste figure is only 9,861.8 millions.

The operations of the Bank of Italy are also increasing, as will be seen below:

(In Millions of Lire)

	Bills Discounted	Advances on Securites
1913 .....	429.1	92.8
1916 .....	466.6	245.3
1917 .....	600.4	399.0
1918 .....	768.3	626.0
1919 .....	862.5	782.0
1920 .....	2,423.6	2,079.4
1921 .....	3,189.3	2,401.1

As paper inflation has not increased since June 30, 1920, the extraordinary increases of discounts and advances in the last two years are star-



ting. No increase in the effective activities of the banks can justify the sudden jump. The process is evidently not one of healthy growth, but of a transference to the shoulders of the Bank of Italy of the task of financing industrial concerns. Banks of issue, instead of being bankers' bankers, are transformed into ordinary bankers, in direct touch with traders and manufacturers. This position, although it cannot be called perilous, claims the closest attention.

In the meantime, profits of the issue banks are increasing. With a paid capital of 180 millions lire and a reserve of 60 millions, the gross profits of the Bank of Italy reached in 1921 the huge sum of 500.4 millions lire, against 394.9 in 1920. Of this sum 15 millions were paid in "ordinary" taxes, 55 millions to funds for risks and amortisations, and 106.2 millions to various administrative and other expenses. The distribution of the net profits in recent years is explained in the following table:

(In Millions of Lire)

Year	Shareholders			State		
	Dividend	To Reserve	Total	State Part of the Net Profits	Tax on Issue of Notes	Total
1913 .....	14.4	—	14.4	4.8	1.4	6.2
1916 .....	14.4	10.6	25.0	15.7	2.5	18.2
1917 .....	14.4	15.9	30.3	21.0	16.2	37.2
1918 .....	14.4	18.1	32.5	23.0	56.6	79.7
1919 .....	16.5	10.9	27.4	18.1	91.4	100.5
1920 .....	18.0	12.8	30.8	21.5	197.0	218.5
1921 .....	18.0	8.2	26.2	16.9	281.1	298.0
Total .....	191.1	82.0	273.1	150.4	656.9	897.3

Most of the money paid to the State Exchequer is a windfall of which it would be unwise to prophesy the repetition. Moreover, banks of issue are highly complaining that the State is absorbing all the gross profits of the huge increase of discounts, whereas the unexpired risks pertaining to the same discounts are left on the shoulders of the shareholders, whose dividends have risen only slightly notwithstanding the great depreciation of the paper money in which dividends are paid. In a different degree, the same complaint is heard from all joint stock companies in Italy. Dividends have risen little or nothing since 1914, and almost the whole increase of profits is going into the State Exchequer. This goes a long way to explain why in Italy there are no traces of the booms in shares which are characteristic of periods of paper depreciation in Germany. A general index number for securities which compares present with pre-war prices is not avail-

able. But Professor Bachi publishes monthly a number index for share prices, where 100 is the price for December, 1918:

	December, 1921	March, 1922		December, 1921	March, 1922
Banks .....	94.19	90.47	Engineering .....	32.81	18.12
Railways .....	50.84	50.09	Motor cars .....	56.29	47.55
Land transportation .....	58.45	61.46	Electricity .....	67.95	68.36
Navigation .....	53.97	47.56	Chemicals .....	58.98	54.66
Cotton .....	125.08	115.75	Sugar .....	101.54	96.92
Jute .....	102.15	108.27	Food .....	107.33	98.80
Wool .....	118.41	118.35	Water supply .....	90.35	87.06
Hemp and flax .....	155.41	124.64	Building & land .....	100.64	93.23
Silk .....	153.85	128.62	Miscellaneous .....	112.26	103.62
Mines .....	53.23	50.14	General index .....	63.84	56.70
Iron and steel .....	17.77	13.95			

In Italy the present level of security prices is lower than in 1914, notwithstanding the depreciation of paper money. The slump is the most sensible in iron and steel (a decrease of 86.05 per cent. on the December, 1918, level), engineering, navigation, motor-cars, railways.

The motor-car industry is greatly hampered by the dwindling of the demand for high-priced motor-cars in the United States and by high duties in most foreign States. Bachi's commodity index number (based upon the average price for 1920=100) shows that the decrease of prices has been continuous for the last six months:

	Number of Commodities	Oct.	Nov.	Dec.	Jan.	Feb.	March
Vegetable foods .....	25	116.4	115.3	113.7	111.6	108.8	106.7
Animal foods .....	13	125.1	123.1	116.9	113.7	112.4	95.7
Chemicals .....	11	75.0	76.0	74.0	73.0	73.0	71.8
Textiles .....	12	73.2	74.5	77.0	72.4	67.9	64.9
Minerals and metals .....	16	63.0	63.9	64.1	63.9	61.6	59.2
Building materials .....	6	90.3	88.4	87.9	91.6	90.9	84.1
Vegetables .....	5	116.0	113.4	112.4	112.4	110.8	102.8
Miscellaneous .....	12	94.7	93.9	93.9	94.3	92.2	87.2
General index (basis 1920)	100	95.0	94.8	93.9	92.4	90.1	85.4
General index (basis 1901-1905) .....	100	747.2	745.7	739.1	727.3	708.7	672.1

Whereas the *class* index numbers are given on the basis 1920, the *general* index number is given also on the basis of 1901-5. There is a 10 per cent. decline in the half-year, but we are yet on a level six to sevenfold higher than in 1901-5.

## 95.

## ITALY

POSTAL SERVICES – STATE RAILWAYS FINANCIAL RESULTS –  
COST OF LIVING AGAIN DECREASING*From our Correspondent*

Turin, May 27

Postmaster-General has published a very interesting report on the working of his services. The figures (in millions of lire) are based on the estimates:

	1907-1908	1922-1923
Income .....	151.2	794.2
Expenditure .....	113.4	962.0
Profit (+) or loss (–) ....	+ 37.8	– 167.8

The war has played havoc with this great public service. While in 1907-8 there was a margin of 25 per cent. between income and expenditure, in 1922-3 the expenditure exceeds income by 21 per cent. A remarkable decrease in the traffic handled by the Post Office took place between 1917-18 and 1920-21, and is partly attributable to the all-round increase of the tariffs. For instance parcels, which once cost 0.60 lire up to 3 kilograms and 1 lira up to 5 kilograms, must to-day pay 2.50 lire up to 1 kilogram, 5 lire up to 3 kilograms, and 8 lire up to 5 kilograms, and so the traffic dwindles. In February, 1921, postal charges were increased by 60 per cent. If the traffic had maintained itself at the previous level, income should have increased by 60 per cent. In fact, the increase was considerably less. In the telegraphic services the increase in the tariff charged was only 20 per cent but (excepting the period from February to May) the income was every month below the expectation by margins varying from 4 to 15 per cent.

In the case of telephones, the experience was somewhat mixed; but when, in January, 1922, to the old increase of 33 per cent. was superadded

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95. June 3, 1922, pp. 1154-1155. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Postal services. State railways financial results. Cost of living again decreasing" and dated "Turin, May 27", is kept in the Einaudi archives.



a new increase of 53 per cent. in the tariff charged, the increase of income fell short of expectation by 24.8 per cent.

Signor Repaci gives in the April number of the *Riforma Sociale* (Turin) an interesting account of the Italian State Railways. Unfortunately, as Senator Bianchi, chairman of the permanent supervising Parliamentary Committee on State Railways, remarks in a report laid on May 17, 1922, before the Senate, the railway administration has not yet published its report for the financial year 1920-21. But, although somewhat belated, the figures calculated by Signor Repaci are of importance as being the first attempt to gauge the financial results of the State railway system from its origin in 1901-6 up to 1919-20.

The following table shows expenses (in millions of lire):

	1	2	3	4	5	6	7	8	
	General	Maintenance and Inspection	Rolling Stock, Railway Materials, and Excess of Traction	Traffic Service	Navigation on the Messina Channel	Additional Expenses	Additional, Re-serves, &c., not Included in Official Acts	Interest and Amortisation of Capital	Total
1905-6 ....	35.3	36.5	93.4	64.9	—	21.0	17.6	241.5	510.2
1906-7 ....	53.4	46.8	122.9	93.3	0.3	25.0	20.5	247.0	610.4
1907-8 ....	54.6	52.5	144.1	104.3	0.5	26.1	20.6	255.4	658.6
1908-9 ....	60.7	57.3	140.7	119.0	0.4	21.6	29.6	266.3	695.9
1909-10 ..	56.0	61.6	159.8	128.7	0.6	22.2	28.6	262.8	720.5
1910-11 ..	59.8	64.7	166.5	133.3	0.7	23.6	29.9	271.4	750.2
1911-12 ..	61.2	70.0	188.8	139.6	0.8	25.7	28.0	279.5	794.0
1912-13 ..	68.5	73.1	193.9	140.6	0.9	26.5	30.2	287.1	821.0
1913-14 ..	72.9	74.4	194.6	144.7	0.9	27.1	34.8	293.9	842.6
1914-15 ..	77.5	80.0	223.6	150.6	1.2	19.7	39.2	303.8	895.9
1915-16 ..	79.9	76.9	340.0	165.5	1.9	24.4	48.8	311.9	1,048.5
1916-17 ..	61.2	85.5	560.7	164.0	2.9	42.6	61.5	312.2	1,290.8
1917-18 ..	102.9	99.8	811.0	218.0	6.3	36.2	92.7	313.1	1,680.2
1918-19 ..	194.8	164.6	855.6	326.1	4.8	64.0	100.4	314.1	2,024.8
1919-20 ..	63.3	312.6	1,528.5	614.0	8.5	72.2	118.1	315.0	3,032.3

The official figures are those for the first six columns. The two columns 7 and 8 had to be estimated by the author so as to give a complete idea of the position. Owing to legal technicalities the railways administration omits in its accounts some items of expenses, which must be included if we wish to have a complete idea of the whole working of the railways. For instance, the interest and amortisation of the *old* capital invested in the State railways — *i.e.*, the capital invested previously to July 1, 1905, when the State took over the railways from the companies, is wholly omitted from the accounts.

Signor Repaci estimates this charge at 214 millions lire, which are included in column 8. The next table shows income (in millions of lire):

	Passengers	Baggages and Express Goods	Goods	Navigation in the Messina Channel	Transportation for State Accounts, Miscellaneous and Indirect Income	Total	Deficit
1905-6 .....	129.5	26.2	183.1	—	8.3	347.2	163.0
1906-7 .....	153.9	30.7	221.8	—	15.9	422.5	187.8
1907-8 .....	161.9	33.1	238.9	—	20.1	464.1	194.4
1908-9 .....	172.1	33.5	249.8	—	25.9	481.2	214.7
1909-10 ...	181.1	34.9	274.9	0.5	26.5	518.0	202.5
1910-11 ...	186.6	35.6	287.0	0.5	31.7	541.5	208.6
1911-12 ...	202.2	42.6	300.7	0.6	32.6	578.9	215.2
1912-13 ...	218.3	42.2	311.6	0.7	36.2	609.1	211.9
1913-14 ...	227.8	41.4	320.0	0.7	37.3	627.1	215.5
1914-15 ...	197.3	56.0	327.7	0.7	35.4	617.2	278.7
1915-16 ...	251.3	135.3	376.5	0.7	52.4	816.3	232.2
1916-17 ...	324.3	289.9	457.0	1.6	47.6	1,120.4	170.6
1917-18 ...	405.3	377.4	467.4	1.3	103.9	1,355.4	324.8
1918-19 ...	653.4	352.7	574.9	1.4	111.6	1,694.0	330.7
1919-20 ...	734.3	227.6	806.6	1.8	139.7	1,910.1	1,122.2

The extraordinary increase in 1919-20 in the deficit, and the even greater loss which in 1920-21 is known to have been suffered, is an intolerable burden, especially in view of the manifold increases of railways charges. The increase in the price of coal goes far to explain the loss; and so far as coal goes it is hoped that better times have come. But other more permanent causes are at work. The recent debate in the House of Deputies on the Railways Budget was terminated with an unanimous vote on the desirability of a better application of the principle of an eight-hour day for railwaymen. Many members spoke with alarm of the fact that railwaymen understood the eight-hours' principle as an obligation not to *work*, but to *be present* for eight hours, so that the effective hours of work are said to be only 2.6. The number of men employed on the State railways went up from 147,289 in 1913-14 to 206,000 in 1920-21, and the average annual cost from 2,065 lire to 9,700 lire. And this greatly increased number of men gives a less efficient service, as appears from the vastly increased cost of damages paid to shippers for delay, waste, thefts, &c. From 3.9 millions lire in 1913-14 (1.13 per cent. on a total of goods carried of 347.4 millions lire) the damages paid rose in 1920-21 to 97.8 millions lire (3.64 per cent. on a total of goods carried of 2,685.6 millions lire). Public opinion, as the debate in the Chamber shows, is awakening to the danger, and the responsible Minister claims that in a year or two things will be once more normal.

The cost of living is again slowly receding; but we are as yet at a level very much higher than the lowest reached last year. The following index number relates to the city of Turin, and is calculated on the basis of the first half of 1914. I have only included the maximum and minimum levels after September, 1920:

	Food	Clothing	House	Light and Heating	Miscellaneous	Total
First semester, 1914 ..	100	100	100	100	100	100
September, 1920 .....	420.1	531.2	100	430.8	455.9	398.4
March, 1921 .....	536.6	496.8	110	428.5	543.9	472.2
July, 1921 .....	446.3	411.4	120	354.2	537.1	404.7
December, 1921 .....	536.7	448.0	120	433.5	578.3	471.0
January, 1922 .....	523.7	454.3	120	435.4	590.7	465.6
February, 1922 .....	522.7	449.6	120	406.9	597.5	463.5
March, 1922 .....	491.4	437.7	120	383.1	597.5	442.3
April, 1922 .....	470.3	433.3	120	378.0	587.1	424.4

The index applies to a working man's family, with wife and three children, inhabiting a house under the Restriction of Rent Acts. If the family were obliged to find a house in the free market a rent from two to four-fold the pre-war rent would have to be paid.

## 96.

## ITALY

RISE IN SAVING DEPOSITS – PUBLIC REVENUE –  
SECURITY INDEX NUMBER

*From our Correspondent*

Turin, June 30

The collapse of the Banca Italiana di Sconto has led to a new increase in the deposits of the State postal savings banks. The following are the most significant figures (in millions of lire):

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96. July 15, 1922, p. 108. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Rise in the postal saving deposits. Public revenue. Agrarian legislation. Share-prices' number index" and dated "Turin, June 30", is kept in the Einaudi archives.



June, 1914 .....	2,138.4	September, 1921 .....	7,960.6
" 1918 .....	2,927.9	October, " .....	7,940.2
" 1919 .....	4,232.9	November, " .....	7,948.2
" 1920 .....	5,896.2	December, " .....	8,146.2
" 1921 .....	7,869.4	January, 1922 .....	8,230.9
July, 1921 .....	7,932.0	February, " .....	8,290.9
August, " .....	7,946.5	March, " .....	8,349.1

The increase in the December, 1921, figure was wholly due to a sum of 206.3 million lire of yearly interest falling due. Apart from this exceptional variation, the stagnation of deposits in the second half of 1921 compares strikingly with the increase in the first three months of 1922. The public, uneasy about the private banks, are again bringing their savings to the public postal savings banks.

The latest accounts of the principal revenue items are not so satisfactory as the previous ones:

(In Millions of Lire)			
	1920-21	1921-22	(Inc. or Dec.)
Taxes on incomes .....	3,146.9	3,984.9	+ 837.9
Stamp .....	1,071.4	1,260.9	+ 189.6
Registration and succession duties ....	716.5	863.9	+ 147.4
Customs and Excise .....	1,561.5	1,846.6	+ 285.1
Monopolies .....	2,527.0	2,729.7	+ 202.7
Sale monopolies .....	466.7	382.1	- 84.6
Lottery .....	133.3	168.9	+ 35.6
	9,623.3	11,237.2	+ 1,613.9

These results are not so satisfactory as they appear on the face of it: 1) It is uncertain how much the month of June will yield; but it seems unlikely that the sum total of principal revenue items for the fiscal year 1921-22, which ends to-day, will exceed 13 billion lire. "Minor" items of revenue may perhaps bring it up to 17-18 billion lire; but even that leaves us far below the expenditure total. The latest hints from the Treasury point to a deficit of 6.7 billion lire for the fiscal year just ending. 2) A beginning of slackening is noticeable in various items. For instance, in the taxes on incomes group the war profit tax in the 11 months has yielded 1,565 million lire, against 1,623 millions in the preceding year; and this item is bound to go rapidly to zero. How this source of revenue is to be replaced is uncertain. The new tax on income will be slow to give abundant fruits. In the meantime, the extraordinary capital levy will tell the position, especially if taxpayers can be induced to pay the whole of tax in a lump sum instead of spreading it over 10 or 20 years.

Another doubtful item is the increase of 189.6 million lire in the yield

of the stamp tax. The good result is for the greater part due to 134.5 million lire of increase in the yield of the stamp tax on luxury sales. This tax is 12 per cent. on the sale of luxury goods to customers and of 0.30 per cent. on the sales between merchants and merchants. Like the sale tax in France, this tax has given somewhat disappointing results. The estimated yield was 350 million lire for the whole fiscal year; and the actual yield for the first 11 months was only 188.3 millions. Other items in this group are rather disconcerting. Apart from an increase of 52.2 million lire in the tax for the benefit of wounded and mutilated men and their families, which is simply an additional tax on all stamps, we see decreases in the yield of the stamps on contracts (–22.6 million lire), on motor-cars (–18.6), on precious stones (–9.3), &c. The greatest increase in the old stamp taxes is ominous: the yield of the tax on the paper circulation of issue banks has gone up from 228.9 to 273.1 million lire. As it is desirable that the paper issues should be checked, this item should be bound to decrease.

Professor Bachi has published the usual index number of share prices for May, the basis of 100 representing the price for December, 1918 (see *Economist*, May 13<sup>th</sup>, page 906):

	December, 1921	March, 1922	May, 1922
Banks .....	94.19	90.47	92.14
Railways .....	50.84	50.09	53.80
Land transport .....	58.45	61.46	66.13
Navigation .....	53.97	47.56	52.07
Cotton .....	125.08	115.75	128.83
Jute .....	102.15	108.27	104.04
Wool .....	118.41	118.35	123.41
Hemp and flax .....	155.41	124.64	144.06
Silk .....	153.85	128.62	161.60
Mines .....	53.23	50.14	48.61
Iron and steel .....	17.77	13.95	15.90
Engineering .....	32.81	18.12	17.73
Motor cars .....	56.29	47.55	56.71
Electricity .....	67.95	68.36	69.13
Chemicals .....	58.98	54.66	61.40
Sugar .....	101.54	96.92	103.57
Food .....	107.33	98.80	105.02
Water supply .....	90.35	87.06	86.21
Building and land .....	100.64	93.23	90.48
Miscellaneous .....	112.26	103.62	110.68
General index .....	63.84	56.70	59.45

In March the quotations reached low-water mark. The subsequent rise is as yet not general, nor very sure of permanency. The group of textiles shows up most prominently, and it can be said that there the crisis is past.

Almost all mills are working at full time. Iron and steel engineering are still at their worst. Not only are the prices of shares seriously depressed, but a national strike has been in progress for about a week in this industry. We have no trace in Italy of the phenomenon known in Germany as the catastrophe-boom. After December, 1918, the number of lire necessary to buy a pound sterling has gone up from 30 to 80-100, but the average index number of share prices has gone down from 100 to 59.45. It is true that in December, 1918, foreign exchanges were pegged, but, at the utmost, this fact signifies that lira has not depreciated in the meantime. This should have kept up values at their former level. The decrease is a sign of the after-war liquidation process which is going on.

97.

## ITALY

### CABINET CRISIS – SOCIALISTS AND GOVERNMENT – COMMODITY AND SHARE PRICES

*From our Correspondent*

Turin, August 2

While I write, a general strike is being proclaimed by the Labour organisations as a protest against the assault and burning down of co-operative and Labour houses in Cremona and Ravenna at the hands of Fascisti. The result of the strike may be slight, but the air is full of bad temper and uncertainties. The Cabinet crisis has been patched up, after twelve days of negotiations, by a revision of the Facta Ministry. On the eve of the Genoa Conference, a Government was constituted in a hurry under the presidency of Signor Facta, for the sole purpose of having a Government when the assembly of nations met on Italian soil. Anyone who tried to form a Government was welcome. To-day the same story is being repeated, Signors Orlando, Bonomi, Meda, De Nava, De Nicola being offered the premiership in turn. The political groups

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97. August 19, 1922, pp. 325-326. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Cabinet crisis. Signor Turati's advice, as chief of the Socialist party, heard by the King. Index numbers for commodities and share prices", dated "Turin, August 1, 1922", is kept in the Einaudi archives.



of the Chamber are unable to agree. The proportional representation system has split the Chamber into 12 groups, which cannot be moulded into a stable majority. The Liberal-Conservatives are split into three groups (Liberals, Nationalists, and Fascisti), the Democrats into five. Besides them, there are the Communists, the Socialists, and the Catholic Populars. As the Populars number 105 and Socialists 125 out of a total membership of 535, it follows that no Government can be formed in which one of these parties does not participate. Hitherto the Populars alone were willing to go into office. But now a new development has occurred: 70 members out of 125 of the Socialist party have declared themselves willing to take office. Their leader, Signor Turati, after 40 years of fight against monarchy and so-called capitalistic constitution, has been received by the King, and has officially given him the advice of the Socialist group on the political situation. The Socialist-Labour party is transforming itself from a revolutionary into a constitutional party. Signor Giolitti says that the change was prompted, not by a change in ideas, but by the fear of the Fascisti. Socialists hope to use the Government weapons – Royal Constabulary (*guardia regia*) and the army – to repress the aggressions of the Fascisti on Labour organisations. If the accession of the Socialist party to office merely signified better public order, it would be generally welcomed. Many fear, however, that the economic policy of the Socialists in office would be dangerous – public works for unemployed, doles out of public purse to Labour organisations, and a new vast army of followers to be satisfied at public expense.

Professor Bachi's commodity index number (based upon the average price for 1920, equals 100) shows an increase for June:

	Number of Commodities	Oct., 1921	Dec., 1921	Mar., 1922	April, 1922	May, 1922	June, 1922
Vegetable foods .....	25	116.4	113.7	106.7	104.9	106.3	108.7
Animal foods .....	13	125.1	116.9	95.7	102.5	93.9	97.0
Chemical .....	11	75.0	74.0	71.8	69.5	67.3	67.0
Textiles .....	12	73.2	77.0	64.9	63.3	65.7	73.0
Minerals and metals .....	16	63.0	64.1	59.2	57.6	57.5	57.4
Building materials .....	6	90.3	87.9	84.1	81.5	78.7	75.7
Vegetables .....	5	116.0	112.4	102.8	92.2	96.4	104.9
Miscellaneous .....	12	94.7	93.9	87.2	88.4	87.9	87.0
General index (basis 1920)	100	95.0	93.9	85.4	84.4	83.3	86.1
General index (basis 1901- 1905) .....	100	747.2	739.1	672.1	663.8	659.6	677.0

The rise is due partly to the rise in the staple prices in foreign markets, but perhaps more to the rise in Italian exchanges, and it is to be feared that July figures will be worse than those for June.

Figures on the cost of living of a working-man's family of five in Turin show that the improvement reaches its climax in April. Since April, every month has marked an increase in retail prices:

	Food	Clothing	Rent	Fuel and Light	Miscellaneous	Total
First half of 1914 .....	100	100	100	100	100	100
June, 1920 .....	410	434	100	385	425	374
June, 1921 .....	485	433	110	358	538	429
January, 1922 .....	524	454	120	435	591	465
April, 1922 .....	470	433	120	378	587	424
May, 1922 .....	473	433	120	351	583	428
June, 1922 .....	484	432	120	358	586	435
July, 1922 .....	487	433	120	365	584	437

Financial markets are not so bad as they might be; the general index number which Professor Bachi publishes for share prices (price of December, 1918=100) fell from 63.84 at the end of last year to 56.70 at the end of March, but has since recovered to 60.54 at the end of June. The most favoured group has been the textile, which has been encouraged by the rising prices of the raw materials and by the expanding consumption. Stocks have been reduced to a very low ebb, and want replenishing. Motor cars, chemicals, sugar, and food shares are also better. After the long-drawn-out crisis of the Banca Italiana di Sconto, the leading banking shares show some signs of vitality.

Rent restriction laws keep shares of building companies low. Generally speaking, the most noticeable fact about share prices is that the depreciation of the lira has not resulted in a great rise in share quotations. "Valuta" booms are ignored in Italy. Limitation by decree of dividends during the war, taxation or confiscation of war profits after the war, fear of new taxation and of compulsory registration of shares, are perhaps the most potent causes of this interesting phenomenon.

98.

## ITALY

THE CRISIS ABATES – FASCISTI IN GENOA –  
ITALY'S NATIONAL WEALTH AND TAXES*From our Correspondent*

Turin, September 5

When I last wrote (August 2<sup>nd</sup>) Italy was approaching a crisis. The Facta Ministry was hurriedly reconstituted to meet the growing danger from the Fascisti. There were indeed rumours that the Fascisti were to march on Rome to dissolve Parliament and set up a dictatorship. The rumours proved, as generally in Italy, unfounded. The Government laid on the military authorities the duty of maintaining order in the disturbed provinces; and all ended in nothing. The country is to-day peaceful and contented. The Chamber has given a large vote of confidence to the same Facta Ministry, of which it endeavoured to get rid a few weeks before. The great topic to-day is the General Election. The Fascisti claim that their representation – about 20 Deputies – is too small; that the trend of public opinion is against Socialism and in their favour. Therefore a General Election is due, notwithstanding that the Chamber is only one year old. Liberals and Democrats hesitate, and say that the proportional system should be abolished before going to the constituencies. Proportionalism was undoubtedly favourable to the great mass parties, *i.e.*, Socialists and Populars, and fatal to the old non-organised Liberal parties.

Meanwhile, under the pressure of Fascism, Municipal-Socialist and Communist councils are resigning or being dissolved; first among them, the Socialist council of the great northern capital, Milan. Socialist administration in Milan was of the worst species. The number and salaries of public employees were raised without regard to economy and even decency, and the city was almost bankrupt. The cry for economy in State and local Budget is at last loud, and we may hope that a new era of retrenchment is in sight.

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98. September 9, 1922, p. 432. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because in the first line the author declares to be the same one as that of the article of August 19, written for certain by Einaudi.



Another result of the Fascist movement is the dissolution of the authority of the Port of Genoa (Consorzio del Porto di Genova). On August 5<sup>th</sup>, Palazzo San Giorgio, the magnificent old building where the Genoa Conference sat, was occupied by Fascisti. Senator Ronco, president of the Port Authority, was compelled to sign a series of decrees dissolving the monopolistic Socialist co-operatives of working men, to whom the operations of the port were entrusted, and was ultimately compelled to resign. The closed lists of the workers (all Socialists) authorised to work on the port were reopened, and new nationalist workers admitted. True, the cost of operations in the Genoa port were going up, but it is doubtful if this was due more to the high wages paid to monopolistic red co-operators than to the exactions of various classes of middlemen bent upon squeezing the utmost farthing from every ton of merchandise passing through the great Italian port.

Signor Matteotti, M.P., has presented an interesting report to the House Committee on Finance. The following table gives the yield of State taxes before and after the war:

	(In Million Lire)		
Ordinary Taxes	1913-14	1920-21	1921-22
On incomes, capital and wealth .....	607.7	2,021.0	2,908.9
On transactions (stamp and registration taxes) .....	261.5	1,471.8	1,612.0
On consumption .....	1,138.9	5,555.7	6,179.8
	2,008.2	9,048.5	10,700.7
Extraordinary Taxes			
All on income and capital .....	—	2,156.0	2,071.1

Even leaving out of account the extraordinary taxes (excess profit taxes, war income-tax, exceptional increase of capital levy) the tax yield increased more than fivefold, and, including extraordinary taxes, more than sixfold.

The increase was highest on transactions and consumption, almost from 1 to 6, while the direct taxes on income and capital increased less than 3½ fold. But if we add to the ordinary taxes on income the extraordinary taxes, we see that the increase of direct taxes was from 607 to 4,170 million lire, or almost from 1 to 7. Thus all classes of taxpayers are to-day more severely hit by taxes than before the war. The lira has depreciated from 1 to 0.21; but taxes having risen from 1 to 6, the real burden is increased by 50 per cent. And we are only at a beginning. A report by Signor D'Aroma, Director-General of Direct Taxes (on income, capital and wealth) to the Ministry of Finance is illuminating. Our

most productive ordinary tax is called *imposta di ricchezza mobile*, and corresponds closely to your income-tax, except in so far that it leaves out, for separate taxation, net rents accruing to land and house proprietors. The total income assessed to the *imposta di ricchezza mobile* was in 1918 only 2,030,774,117 lire. In 1921 it rose to 3,974,277,318 lire, and in 1922 to 6,002,747,033 lire. This huge increase signifies that more and more incomes are brought into the fiscal net. The administration, somewhat lax before the war, is becoming more and more severe. Signor D'Aroma hopes to be able, in a few years, to increase assessed income considerably. He observes that only 1 billion lire annual income is assessed to the land tax, 0.8 to the house-tax, 6 to the income-tax (*ricchezza mobile*), 4.5 to the direct income-tax (income-tax on State servants' salaries and other incomes paid by the Government, which are not assessed, but directly taxed at the source), making 12.3 billion lire of income assessed and taxed. The true national income is much higher, and cannot be estimated at less than 60 billions lire. Italy, it is true, is a country of small incomes, which should be exempt from direct taxation; but if 30 out of 60 billions are small incomes, rightly exempted, there is a long distance between 12 billions taxed and 30 billions which ought to be taxed. Even allowing for 6 billions legally exempt (interest of public debt issued under the clause of tax exemption and other similar items), the administration has a large virgin soil left to till to the benefit of the exchequer.

One potent cause of tax evasion, however, is the extravagant method of putting up tax rates, so that the taxpayer is bound to minimise the income assessed to save himself from utter ruin. Land income assessed is only 1 billion, but upon this paltry sum is laid from State, Provinces and municipalities a tax burden of 875 millions lire. A rate of 88 per cent. cannot be paid; the only way of escape for the taxpayer is to understate his assessed income. The burden of the house tax is 639 millions lire.

## 99.

## ITALY

## CENSUS OF POPULATION – SULPHUR AND SHIPBUILDING QUESTIONS

*From our Correspondent*

Turin, September 30

The Central Department of Statistics publishes the final results of the Census taken on December 1, 1921. Population statistics at various dates are as follows:

	Population	Average Annual Increase per 1,000	Inhabitants per Square Kilometre
1770 .....	16,477,000	2.51	57.5
1816 .....	18,383,000	8.89	64.1
1848 .....	23,618,000	3.95	82.4
1862 (January 1) .....	25,000,000	7.66	87.2
1901 (February 10) .....	32,475,253	6.00	113.3
1911 (June 10) .....	34,671,377	7.51	121.0
1921 (Dec. 1), old territory .....	37,276,738	—	130.0
Territory with the new provinces .....	38,835,941	—	125.7

The war and the influenza epidemic have not left very marked traces on the Italian population; the growth between 1911 and 1921 is not appreciably lower than the average of the best periods of the past. The density of population per square kilometre is increasing fast, and is a most potent cause of emigration in an agricultural country like Italy, which is not capable of absorbing the annual surplus of births over deaths.

In the new provinces acquired from Austrian Empire the population decreased between the two last censuses from 1,592,278 to 1,559,203 (2.08 per cent.), but the decrease is very easily explained as a consequence of the war.

Two problems are being keenly discussed at present – sulphur and shipyards. Interested circles petitioned the Government with the object of obtaining Royal decrees in favour of these industries, which are said

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99. October 7, 1922, pp. 586-587. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. Moreover, the treatment of the argument bears some similarities with some Einaudi's articles in *Il Corriere della Sera* in the period March-October.



to be gravely hit by the economic crisis. Sicilian sulphur is not freely sold. Ali producers are obliged to consign sulphur to a compulsory Consortium, which fixes prices and advances immediately a provisional sum, settling accounts every year. At the end of 1921 the official price was 750 lire per ton, and the provisional advance 500 lire. Producers hoped that the residual 250 lire would be paid in due time, subject to a deduction of 90 lire for taxes and Consortium expenses. But for the whole of 1922 sales have been much restricted. The Louisiana producers are underselling Sicilian sulphur, and the menace is growing, thanks to better situation and better appliances of American sulphur mines. Stocks of 270,000 tons had been accumulated by the Consortium at April 30, 1922, and this stock, though now somewhat reduced, is obstructing the sale of new sulphur. The Consortium had continued up to September to accept new sulphur, making advances on it by means of funds accumulated in the past and of loans from the issue banks. But now banks have refused to go on with new loans; the Consortium in their turn had to stop advances on new sulphur, and producers, who cannot sell to the public, are obliged to stop production. To avert unemployment the Government has been persuaded to recommend to Parliament a Bill for a State guarantee of a loan of 120 millions lire, with which the Consortium would start a sort of sulphur-valorisation scheme. The old stock of 200,000 tons would be put aside and left unsold until better times and better prices.

The production would go on, and the Consortium, free from the care of the old stock, would endeavour to sell only the new production. The affair is a wild gamble on the continuance of the present high foreign exchange rate and on the probability of a pool with American producers. If the lira improves and American competition becomes keener, internal prices would tumble down and the bubble explode. The Chamber, however, has voted the Bill, which is awaiting discussion in the Senate. During the recess producers, growing impatient, have petitioned Government to sanction the State guarantee of the 120 millions loan by means of a Royal decree. Ministers and Under-Secretaries of State backed this unconstitutional request, the acceptance of which would cancel Parliamentary control of public money. In the face of a vigorous newspaper campaign started against the abuse of Royal decrees, the Government have not dared to issue the decrees.

Another decree, which is from time to time mooted in the public Press, is one which would aim at giving orders for from 35 to 40 thousand tons of

steamers for goods and passenger service in the State-subsidised lines. In pre-war times Italy possessed 10 private shipyards capable of turning out 80,000 gross tons annually. They should have had plenty of work, for, as the mercantile fleet was 1,500,000 tons, the demand of new ships should have been greater than the production. But shipowners did not renew the fleet in the rational proportion of 1/15 every year; moreover, they preferred to buy old ships sold in foreign markets or to order more cheaply in foreign shipyards. The normal national production was limited to a few tens of thousands of tons. Practically the only shipyards which were sometimes busy with work were the Ligurian ones.

The war changed things. In 1918, and in the two years after the Armistice, shipbuilders screamed for Government aid, obtained it, and sank in the improvement of old and the building of new yards a sum not less than 250 million lire. To-day there exist in Italy 27 shipyards, with a total productivity of 250,000 gross tons. The fleet, it is true, has doubled to 3,000,000 tons, and should furnish a theoretical sum total of orders of 200,000 tons annually. But this figure is to-day purely theoretical, owing to the shipping crisis. Building has been begun on 74 ships for a total of 436,520 gross tons, but is proceeding only on 34 ships for 210,890 tons, mostly in an advanced state of construction. In a year the work in hand will be terminated, and no new work is forthcoming. Shipbuilders are therefore clamouring for Government orders, to be equally distributed among all shipyards, old and new. As the number of 27 shipyards is evidently excessive, only the best equipped and best managed ones should survive, and the survival of the 12 or 15 best ones would be greatly beneficial to the shipbuilding industry and the nation. But the technically or financially weak yards die hard; and as they possess influence through their banking and political connections, they hope for a new lease of life, if only the State can be persuaded to give their orders to all yards, bad and good alike. These are the circumstances under which, during parliamentary recess, the Government is asked to issue a Royal decree placing 35 or 40 thousand tons of shipbuilding orders.

## 100.

## ITALY

THE FASCISTI AND THEIR PROGRAMME –  
 GLOOMY SPEECHES OF GIOLITTI AND NITTI –  
 EXCHANGES AND PRICES RISING –  
 ECONOMIC AND FINANCIAL CONDITIONS

*From our Correspondent*

Turin, October 28, 1922

The important question is, what is the economic platform of the new party? Signor Mussolini, the chief, is not an economist. Passionate and full of vigour, he is able to commit his party to headlong plunges into unknown seas. For the moment, he has uttered at Naples only one economic sentence: "Italy needs at the helm a man capable of saying *No* to all requests of new expenditure". So far, so good. All leaders are saying the same thing. Signors Nitti and Giolitti have recently made speeches, in which Italy's situation was coloured very darkly, and public opinion was seriously and gravely warned of the necessity of putting an end to the increase in public expenditure, and of reducing even useful expenses. Signor Giolitti was very resolute on the topic, and prophesied the lira going to ruin, following the evil example of the German mark, if the State Budget were not put in order in a reasonably short time. The words of the old statesman, who is passing his eightieth birthday, had an immediate effect. The lira went trumpling in foreign markets, and in a few days the pound sterling rose from 105 to 117 lire, and the doliar from 24 to 26 lire.

From this rise was born in the Italian bourses a faint approximation to a tentative valuta boom, as is apparent from the following table:

	September 26	October 25
Consols 3½ .....	72·70	72·15
" 5% .....	81·80	80·30
SHARES		
Bank of Italy .....	1,347	1,375
Banca Commerciale .....	863	878

100. November 4, 1922, pp. 853-854. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



Credito Italiano .....	650	670
Meridional railways .....	293	291
Libera Triestina (navigation) .....	445	430
Cantoni (cotton) .....	1,001	1,250
Cascami seta (silk) .....	582	688
De Angeli (cotton printing) .....	429	480
Rossi (wool) .....	2,000	2,120
Terni (iron and steel) .....	476	468
Fiat (motor car) .....	233	240
Edison (electricity) .....	440	466
Fondi Rustici (agricultural land) .....	230	232
Immobiliari (house property) .....	510	540
Nebiolo (printing machines and types) .....	326	397
Silos (wheat elevators) .....	238	268
FOREIGN EXCHANGES		
	Sept. 26	Oct. 27
Paris .....	178	179
London .....	102.80	115
Switzerland .....	435	465
New York .....	23.30	26.45
Berlin .....	1.67	0.68½

Nearly all shares have participated in the boomlet, rise of prices being the highest in textiles, where high profits are obtained. Consols and all other fixed interest securities are low. Although prices are increasing, the following figures on the cost of living of a working man's family of five in Turin do not yet bear the full repercussion of recent rises in foreign exchanges. This rise in the cost of living has, however, not been accompanied up to date by requests for higher wages.

	Food	Clothing	Rent	Fuel and Light	Miscellaneous	Total
First half of 1914 .....	100	100	100	100	100	100
June, 1920 .....	410	434	100	385	425	374
June, 1921 .....	485	433	110	358	538	429
January, 1922 .....	524	454	120	435	591	465
April, 1922 .....	470	433	120	378	587	424
May, 1922 .....	473	433	120	351	583	428
June, 1922 .....	484	432	120	358	586	435
July, 1922 .....	487	435	120	365	584	437
August, 1922 .....	489	435	120	372	584	438
September, 1922 .....	521	436	120	387	582	458

Will the new party have the will and the power to redress the awkward financial situation of the State, which is the only true cause of the present

unfavourable movements of exchanges and prices? I say the *only* cause of the trouble, as the economic situation of the country is not bad. Far from it. Agriculture has had some adverse experiences – the wheat harvest under the average, and a deficiency of rain, which in various regions made havoc among the cattle; but the cocoons and vintage seasons went very favourably, and prices of agricultural products are high, so that the agricultural community is faring well. Textile products are, therefore, in good demand, and building shows, after years of complete quiet, some signs of vitality. State and banking circulation are not increasing, and the State finances itself by means of Treasury bills sold to real investors. The deficit of the current fiscal year was estimated by Signor Giolitti at not less than seven billions lire – *i.e.*, Italian savers are buying this year State securities to the tune of seven billions lire for the sake of balancing the State Budget. If we assume that the present lira is worth only 20 per cent. of the old good money, we must conclude that the minimum capacity to save of Italians is not less than 1,400 millions gold lire. At present, unfortunately, all these savings are poured into the all-devouring State Treasury.

Therefore, the most urgent necessity is the reduction of public expenses. Even if taxes should be somewhat increased, the balancing of the State Budget would set free a large margin of savings for industrial and agricultural investments. Economy in public services is possible; the huge deficit of the State Railways of over one billion lire is related to two principal causes: high exchanges, which raise the price of coal, and the bad organisation of the eight hours day, in virtue of which many railwaymen work effectively only for two or three hours a day. In the postal services the tale is very much the same. Large sums could be saved if the State could buy all they want in the cheapest market; if State bounties and subsidies were suspended or reduced; if war pensions were revised, so as to limit them; if plans for public works were restricted to a minimum. But the man who will attempt to put in practice the Mussolini dictum of replying *No* to all requests of expenditure will possess remarkable courage. Populars and Socialists have not this sort of courage, as they cater for the vote of multitudes crying always after State aid, and it is to be feared that Fascisti, who are proud of marshalling 800,000 adherents, will hesitate before the task.

101.

ITALY

ABSOLUTE GOVERNMENT IN ITALY – TAXES TO BE SIMPLIFIED –  
WORKING OF THE SUCCESSION TAX – A NEW EXCISE?

*From our Correspondent*

Turin, November 27

The first financial acts of the Fascist Government are promising. They have abolished useless train services in the State railways, and declared their intention to drop many Royal decrees instituting port authorities in minor ports, which would simply have expanded into a new bureaucracy, additional to the State, municipal, and other authorities governing the port administration. But the most important act of the new Cabinet has been its demand for provisional powers to collect and expend revenue (*esercizio provvisorio*) till June 30, 1923. The Chamber has readily assented, and the Senate will do likewise. The Government is thus empowered to act as if the budgets had been regularly discussed and voted by Parliament. Moreover, the Chamber has passed the so-called Bill of full-powers. The Senate will certainly concur.

This Bill authorises the Government until December 31, 1923, to reform the civil and military services; to suppress this or that public service; to transfer railways and the other industrial State concerns to private hands; to reduce, simplify, or increase existing taxes, and to introduce new ones; to act as they will in the domain of public administration and finance. Never was such absolute power entrusted by a Parliament to the Executive. Even in time of war there were limits to the free action of the Government. This time the only limit set to the absolutism of the Government is the duty to report before March 31, 1924 – a vague and ineffectual limit, as Parliament will not be called to give a vote on such a report.

The renunciation by Parliament of all its powers for so long a period was received with general cheers by the public. Italians were sick of talkers and of weak executives. The general feeling is one of profound distrust towards Parliament. Men would accept a Czar for the sake of getting out of

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101. December 2, 1922, pp. 1032-1033. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



chaos. In finance this revulsion against political talk, abuses, tricks, and so on ought to have been a revulsion against bureaucracy. The excessive taxation, the system of piling tax upon tax, the demagogic persecution of savings and capital by taxes up to 100 per cent. of income or capital – all this was characteristic of the war and post-war period, when the Chamber was never asked to vote on financial bills, but decree followed decree on the initiative of the Government. But people who are sick of a given state of things frequently seek remedies at the source of the evils of which they complain. Oppressed by the absolute rule of an old, ineffectual, compromising, sceptic set of politicians, they hope for redress from another set of politicians, young, energetic, full of vigour and of patriotism. True, there was little to hope for from the dying Chamber. Moreover, most of the new Ministers are capable men, truly desirous of doing well. Signor De Stefani, Minister of Finance, has not announced a big programme, as did several of his predecessors, who went out of office with nothing done. He is professor of political economy at the Venice High School of Commerce, and has declared his intention of simplifying and consolidating taxes, increasing their yield not by putting rates up, but by prosecuting defaulters. If new taxes must be imposed, for every penny of new taxes a corresponding saving ought to be made in the public expenditure. His only definite disclosure was that the succession tax is to be reduced. It was high time that from the Government bench a voice should be raised against the frenzied finance of the Bolshevik after-armistice period. A few examples will suffice to give an idea of what this system meant:

Inheritance of Each Heir or Legatee		Property Passing From						
Lire	Pound Sterling at the Rate of 100 Lire to £1	Fathers and Mothers to Sons	Grandfathers to Grandsons and Others in Direct Line	Husband to Wife	Brothers to Sisters	Uncles to Nephews	First Cousins	Other Relatives and Strangers
		%	%	%	%	%	%	%
5,000	50	1.80	1.80	5.40	9.60	12	14.40	22.80
100,000	1,000	4.80	6	12	18	21.60	32.40	48
500,000	5,000	10.80	12	19.20	25.80	28.80	39.60	62.40
1,000,000	10,000	16.80	18	26.40	32.40	36	48	70.80
5,000,000	50,000	21.60	25.20	32.40	39.60	45.60	57.60	78
10,000,000	100,000	25.20	28.80	36	43.20	50.40	62.40	81.60
20,000,000	200,000	28.80	32.40	39.60	46.80	54	67.20	86.40
more than 20,000,000	more than 200,000	32.80	36	43.20	50.40	57.60	72	90

On top of this there was *a*) a tax of 0.75 per cent. on the land and houses included in the inheritance. *b*) A tax of 6 per cent., 9.60 per cent., and 12 per cent. of the heritage, when it falls to an heir or legatee, not the son, husband, or wife of the deceased, who receives more than 200,000 lire, and is possessed in his own right of an estate of more than 200,000, 400,000, and 600,000 lire respectively. When the maximum rate of 90 per cent. is due from a second cousin, and the rules under *a*) and *b*) are working at their maximum, the inheritance is subject to a rate of 102.75 per cent., which is manifestly unthinkable. Moreover *c*) if the estate is subject to a life interest, the remainder-man is bound to pay the succession tax *at once* on the half of the full value if the usufructuary is under 50 years of age, and on three-fourths is over 50. If, as frequently happens, a husband without sons makes his wife a life-usufructuary, and leaves the estate to a nephew or a cousin, the tax to be paid at once swallows up, with the accrued interests on the tax, the whole value of the succession. Therefore, latterly many heirs have been compelled to refuse to take advantage of wills in their favour. *d*) There is added to the estate 7.10 per cent. of the gross sum – before deduction of the debts – for jewels and furniture; *e*) funeral and other expenses are deducted at the rate of 1 per cent. on an estate from 10,000 to 100,000 lire, and of 0.50 per cent. from 100,000 lire upward; *f*) debts are deducted only when bearing a certain publicly registered date. Most debts are therefore not recognised as such, and the heirs have to pay the tax on them. Such was the old system. The announcement made by Signor De Stefani that the Government intends to reduce rates all round was greeted with relief by many families, menaced with ruin.

On new taxes Signor De Stefani spoke cautiously. He seemed to be favourable to a new excise capable of bringing into the tax-gatherers' net the great masses of agricultural and industrial workers, who are not subject to any direct tax on income. Except for the higher classes of workers, whose wages are over 25 lire per day, direct taxation is practically impossible; the only substitute is an excise. Wine is already taxed at the rate of 20 lire the hectolitre. As the internal price is over 200 lire, a higher rate would not be unbearable. There is much talk of the re-establishment of the flour tax, but the old flour tax (*macinato*) has left so bad a record that it is doubtful if even a strong Government dare reimpose it.

## 102.

## ITALY

PUBLIC ECONOMIES – THE TASK OF THE EXTRAORDINARY RAILWAY  
COMMISSIONER – REDUCTION OF THE DUTY ON FLOUR – COST OF LIVING*From our Correspondent*

Turin, December 31

The Mussolini Government is working in earnest. The last meeting of the Cabinet produced a wholesale disbandment of committees and consultative councils created from time to time to give counsels to the Ministry of Agriculture; 21 committees with 332 members being abolished at one stroke. At the same meeting the Minister for Public Education reduced the total number of employees in his department from 1898 to 1159.

An experiment which will be watched with the utmost interest is the appointment of Mr Edward Torre, M. P., to the newly created post of Extraordinary Commissioner for State Railways. A medical man and a Fascist, Mr Torre is said to possess the will and the power to restore order in the railway administration, whose official deficit in 1921-1922 was upwards of 1,200 million lire, and whose true deficit, taking into account all expenses and losses borne by other departments, may be calculated to reach 1,600 millions lire. The commissioner will have all the powers of the dissolved Executive Railway Council. It is said that Mr Torre is determined to dismiss 50,000 railwaymen, and truly nothing short of such a drastic measure can save the railway budget. The increase in the number of railwaymen was as follows after the war:

	1913-14	1921-22	Increase %
Clerks .....	16,713	18,054	8
Stations .....	39,485	61,531	56
Trains .....	11,748	22,750	94
Locomotives .....	11,245	19,278	71
Miscellaneous .....	68,098	82,812	21
Total .....	147,289	204,425	39

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102. January 13, 1923, pp. 62-63. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Economies in public expenses. The task of the extraordinary railway commissioner. Reduction of the duty on flour. Cost of living", dated "Turin, December 30, 1922", is kept in the Einaudi archives.



While the number of men employed increased, the work done diminished. Train-kilometers diminished from 153.7 millions in 1913-14 to 129.5 in 1921-22. The average number of hours worked by a man in the year varied as follows:

	1913-14	1920-21	Decrease %
Stations .....	3,423	2,192	36
Trains .....	3,498	2,160	38
Locomotives .....	3,030	2,112	30
General workshops .....	3,220	2,040	37
Locomotive workshops ....	2,790	1,992	29

An application of the policy of the eight hours' day, and of the weekly rest, by which the hours of effective work done were sometimes reduced to two or three hours a day, is largely responsible for this lamentable state of affairs; but lack of discipline contributed no less to it.

The average number of days of sickness increased, per year and per man, as follows:

	1913-14	1921-22	Increase %
Stations .....	13	19	46
Trains .....	14	22	57
Locomotives .....	20	25	25
General workshops .....	21	43	105
Locomotive workshops ....	21	43	105

Free-trade ideas are making some progress in Italy. The newly constituted group has published in the *Riforma Sociale* of Turin, which is its provisional organ, a long analysis of the new tariff of July 1, 1921, by Signor Repaci, who calculates the increase in the weight of general duties to be from 100 per cent. to 184 per cent. But the variations are extreme, and many examples are quoted of extraordinary and even ludicrous protection. One of the first acts of Signor De Stefani, the new Minister of Finance, has been the reduction from 11.50 to 4 gold lire per quintal of the duty on flour. The story of this duty provides an interesting example of the by-ways of protection. When foreign wheat was dutiable at 7.50 gold lire per quintal, flour was also dutiable at 11.50 gold lire. The duty on flour gave a protection to milling industry, as 10 gold lire would have sufficed to counter-balance the duty of 7.50 on wheat. During the war both duties were suspended, but it seems that, as from July 1, 1921, the duty on flour was tacitly re-established at the old figure of 11.50, while the duty on wheat remained in suspense. From this odd mistake the protection to the milling industry was raised from 11.50 less 10 (equivalent of the 7.50 duty on wheat) to the whole amount of 11.50 gold lire. Signor De Stefani, while

maintaining the free importation of wheat, reduced the duty on flour to 4 lire. It should have been reduced to 1.50, but the tentative step is a good one. Millers are clamouring that they did not avail themselves of the protection, but the possibility was there, and in some cases was exploited.

The cost of living in recent months has been slowly increasing. The index number of the cost of living for a working man's family of five has varied thus:

		Turin	Milan	Florence	Rome
First half of	1914 .....	100	100	100	100
January,	1920 .....	318.5	302.6	323.5	263.4
March,	1921 .....	472.2	472.1	517.7	384.5
April,	" .....	470.4	491.8	521.9	410.9
May,	" .....	455.7	507.9	523.1	395.8
July,	" .....	404.7	465.8	450.8	387.3
December,	" .....	470.9	496.4	532	422.5
April,	1922 .....	424.5	450.2	475	420.3
May,	" .....	428.1	450.9	476	426.6
June,	" .....	435.1	454.8	473	425.4
July,	" .....	436.9	460.4	478	428.9
August,	" .....	438.4	464.8	473	430.9
September,	" .....	457.8	469.9	479	437
October,	" .....	462.4	471.9	506	444
November,	" .....	465.3	—	—	—

The maximum was reached between March and May, 1921. Some substantial declines took place in the summer of 1921 and the spring of 1922. But after the middle of the year the tide was again rising. Perhaps the improvement in the foreign exchanges will have a favourable influence on the December and January figures.

### 103.

#### ANGLO-ITALIAN RELATIONS

*By an Italian Correspondent*

At the Cabinet Council's meeting of yesterday Signor Mussolini gave a formal denial to rumours of a project of a Continental bloc against Anglo-

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103. January 20, 1923, pp. 88-89. The article, unsigned, was published in the section: "Leading articles". Its attribution to Luigi Einaudi is certain because the original manuscript, unentitled but dated "Rome, January 16", is kept in the Einaudi archives.

Saxon countries. "The bloc", said the Premier, "simply does not exist. The Italian Government never made such a proposal, and never planned a French-Italian-German coalition against Great Britain. The importance which Great Britain has in the economic life of the European Continent would alone have forbidden this plan, to say nothing of the special relations between Great Britain and Italy". There is thus an end to the wild talk which had been current for some days in the Italian and foreign Press about a resurrection of the ill-fated Napoleonic plan of a Continental bloc against England.

The interesting point is, however, whether there exist in Italy undercurrents of public opinion which warrant such a plan being spoken of. It would be useless to deny that, if the reception of the plan was far from enthusiastic, it met with a degree of favour in some sections of the Press, which in the common interest of England and Italy should not be ignored.

The first undercurrent is the old pro-German feeling, which was in 1914 and 1915 favourable first to war on the German side and afterwards to neutrality. Even the most obdurate pro-Germans were converted by the spectacular fall of the Austro-Hungarian Monarchy which would not have been possible without the defeat of Germany. But, now that Italy has reached her natural boundaries to the Northern Alps, a feeling is becoming vocal that Germany was, after all, a great market for several agricultural products of Italian soil, and that this market will never be recovered till Germany herself is once again producing and consuming in full swing.

On the other side, Germany was our greatest supplier of machinery, chemicals, and industrial products, and many consumers are identifying old days of cheapness with the steady flow of cheap German goods. France and England have not taken the place, as buyers and sellers of Germany. Italian producers are complaining bitterly against British duties on motor-cars, 33 per cent. on key industries products, and similar hindrances to our export. Perhaps British duties are not so bad as is said, especially when their action is wholly or partially suspended in virtue of existing treaties. But they have, nevertheless, done an enormous harm, and have furnished an eagerly seized weapon to the Italian Protectionists. England is said to be preaching Free-trade to other peoples, but practising rampant Protection at home against foreign imports. The Italian ultra-Protectionist tariff of July 1, 1922, was justified, therefore, on the score of British Protection. As in other countries, faith in the economic future of Germany was so strong in those circles which admired German thoroughness, system, strong government, plodding, industry, and inventiveness, that a large volume of marks was bought when the exchange was not unreasonably low.



Warnings were in vain. It seemed impossible to people believing in the economic future of Germany that marks should not recover also. When the mark collapsed and got every day worse, it was not ascribed to the feeble financial policy of the German Government, but the responsibility was put on the shoulders of France, England, and the United States. Among some mark speculators the fall of the mark was attributed to a sort of conspiracy among gold countries, and as the franc could not be accused of fattening at the expense of the German mark it was, in some mysterious way, made out to be the fault of sterling and of the dollar.

Pre-war theories on old and new, rich and poor, nations were again in favour. Before the war it was a favourite doctrine with nationalists that new, rising nations, with a high birth rate, with an expanding emigration, with an incipient and growing wealth, such as Germany, Italy, Russia and Japan, were called to high destinies, to conquer territories, to become world-Powers. They would encounter the jealousy and the bitter opposition of old-established nations such as France and Great Britain, with great accumulated wealth, with a low or lowering birth rate, with territories exceeding the possibilities of the native population. The war of new and rising nations against old and stationary was the outcome of this theory, which was, even in pre-war times, erroneous both historically and economically; and events have demonstrated that in the world war so-called new and old countries fought side by side.

The theory is being resuscitated in a new form; countries to whom the war has given a heritage of debts should show a united front against creditor countries. And as the Continental powers, victors and beaten alike, are groaning under the weight of debts, of Budget deficits, and of devaluated paper money, they should unite themselves against the predominance of the creditor gold countries. These are nebulous conceptions indeed; but, unfortunately, the popular mind is apt to be caught by shibboleths; and it was unfortunate that at the last Paris Conference there crept out suddenly, without previous discussion, the question of the French and Italian gold sent during the war to London, and thence shipped to the United States for the sake of the so-called "pegging of the exchanges" operation. The 420 millions of gold-lire sent from the Italian Banks of Issue to London was seized upon as a proof of a determined British policy of depriving Italy of her last remnants of gold. I do not know what were the exact terms of the transaction, as they have never been officially published in full in Italy; but I do know that the pegging of the exchanges was not an unmixed good as a means of maintaining the price of the pound sterling at about 37 lire. The operation was costly; and no one would begrudge the cost if the

results achieved had been good. But the public debt incurred by the Italian Government still remains, and no one can predict at what rate of exchange it will be, if ever, repaid; so that, from the exchequer point of view, the operation is not yet closed. As to private Italian purchases of foreign goods made at 37 or thereabouts, if they were closed with payment at that rate, they were good for the private Italian purchasers who bought exchange at the low artificial price at the expense of the Italian exchequer. But many payments were left in suspense by purchasers who hoped to buy exchange at a still lower price, and many losses were incurred when the peg was removed and exchanges rose to 100 and over.

If you add that in Italy at the present time nationalism is in the ascendant; and nationalism means colonialism and accusations against Allied Powers who made vast colonial acquisitions in Africa, Mesopotamia, Oceania, and left nothing to Italy, you will have an almost complete picture of the causes which are unmistakably swinging the pendulum of Italian public opinion against the Allies.

The movement however is, as yet, superficial, and has an academic tinge. As Mussolini's pronouncements show, responsible statesmen are cautious, and do not favour a fundamental change of our policy. Editors of leading newspapers examined in a very critical spirit the Continental *bloc* plan, when it was first rumoured. It has been, from 1860 onwards, a fundamental principle of Italian foreign policy to maintain friendly relations with Great Britain. Both nations have the same interest —*i.e.*, not to let Europe become the prey of a paramount Power, be it called Napoleonic Empire or Hohenzollern Germany. A paramount Power is alike distasteful to Great Britain and Italy. Both have to fear much, the first for the continuity of her world power, the second for her national independence from such a European ascendancy. The equilibrium of the various European Powers was destroyed by the world war, and is bound to be re-established by some means or other. Italy will work with England if such an end is in sight. But she needs to be previously freed from economic fetters.

The position of Italy as to reparations is somewhat different from France's position. France needs a certain amount of reparation in addition to a clear slate in the matter of inter-Allied debts. Italy needs, first and foremost, the cancellation of State debts to Great Britain and United States. Once this matter can be righted, Italy will very easily give her assent to a plan which should greatly decrease Germany's obligations. Italians always looked on their share of German reparations with the utmost scepticism. It will not cost much to them to make renunciations in this matter. But they are sorely grieved at the thought of being debtors for 22 or 23 billions of

gold lire to peoples who were our allies in a common fight for world liberty. If other grievances are sectional, academic and superficial, this one grievance is strongly felt by all classes. Italians do not appreciate the game of give and take in this matter. The only policy which would disperse the clouds which have been allowed to accumulate on the British-Italian sky is a straightforward cancellation of war debts. Nothing short of this will satisfy average public opinion in Italy. Italians know that they have powerful allies who in England have embraced the cause of the complete cancellation of public debts.

104.

## ITALY

RESTRICTION OF RENTS TO END –  
FOREIGN TRADE: GREAT BRITAIN'S SHARE*From our Correspondent*

Turin, January 29

There is probably no Italian family whose daily talk is not about house rents. This is the universal topic of discussion. By a Royal legislative decree of January 7, 1923, Signor Mussolini attempted to cut the Gordian knot which had grown about the Restriction of Rents Acts. A recent decree of October 23, 1922, the last days of the Facta Government, had prolonged for a year from July 1, 1923, to June, 1924, the war Restriction of Rents Acts, with fixed increases uniform all over the country. After June 30, 1924, till June 30, 1926, rents were to be determined, in case of disagreement, by an arbitration court. After June 30, 1926, absolute freedom was to return.

Public opinion interpreted the Facta-Alessio decree in the sense that after the first year a new lease of life would be conceded to the restriction system, and so on indefinitely. Nobody was troubled about the prospect of restitution

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104. February 3, 1923, p. 211. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Restriction of rent acts and their abolition. House rents fixed by arbitration. Trade relations between Great Britain and Italy", dated "Turin, January 29", is kept in the Einaudi archives.



of freedom to house landlords. The decree of January 7<sup>th</sup>, by the Mussolini Government, took the country by surprise. This decree provided that the restriction system was to be abolished at once, as from July 1, 1923.

Freedom of contract was the only remedy to the numerous grievances which had arisen out of the restrictions; uneconomic rents much below the market level; ruin of landlords crushed between fixed rents and high expenses; lack of encouragement to building; the retention of large flats by small families who could not move to other quarters owing to the absolute impossibility of finding vacant houses; the tragic position of new families of public employees and other people obliged to move by reason of their unemployment from town to town, &c. The new freedom is, however, not to be an absolute one. For an intermediate period of three years, from July 1, 1923, to June, 1926, the rents, in case of disagreement, will be fixed by an arbitration court of three members, a landlord, a tenant, and a judiciary umpire as president. Signor Mussolini solemnly admonished landlords not to abuse their restored freedom, as, in the event of excessive increases, restrictions would be re-established. In many cities general agreements have taken place between unions of landlords and tenants. For instance, at Turin the two unions agreed to recommend that, taking as a basis the rents paid in 1914, rents up to 1,000 lire per year should be increased 70 per cent. for yearly leases and 120 per cent. for three-year leases. Rents from 1,001 to 1,600 lire to be increased respectively 80 and 130 per cent. for one and three years' leases; rents from 1,601 to 2,400 to be increased 100 and 150 per cent.; rents from 2,401 to 4,000 respectively 130 and 220 per cent. Rents above 4,000 to be freely discussed by two parties without any general recommendations. All over Italy agreements more or less similar are taking place. It will be very interesting to follow the results of the courageous experiment made by the Government. Just as Signor Giolitti had the courage to abolish the ruinous bread subsidy which caused a loss of billions yearly and doomed the lira to the fate of the mark, and was not afraid to incur unpopularity among the Socialist masses on that score, so Signor Mussolini has not hesitated to arouse discontent among the working and the middle classes by the abolition of Restriction of Rents Acts. He paved the way to complete freedom by the method of the arbitration courts; but, none the less, his decision is bold and creditable.

The publication of statistics of foreign commerce is belated in Italy. The latest volume published refers to June, 1922, and from this volume we can extract the following figures on the direction of trade for five principal countries. The figures for Germany are exclusive of Reparation payments:

## Millions of Lire

	First Half of 1922	% of the Total Trade	Whole Year 1913	Whole Year 1919	Whole Year 1920	First Half of 1921
Imports from:			%	%	%	%
France .....	537.0	6.9	7.8	4.6	8.4	6.0
Germany .....	609.1	7.9	16.8	0.5	5.2	6.9
Switzerland .....	134.5	1.7	2.4	2.2	2.1	1.4
Great Britain ..	969.7	12.5	16.2	14.7	14.9	9.8
United States ..	2,164.7	27.9	14.3	44.2	30.2	38.3
Exports to:						
France .....	671.2	16.0	9.2	23.1	5.7	10.3
Germany.....	508.1	12.1	13.7	1.4	4.9	8.0
Switzerland .....	532.4	12.7	9.9	13.0	11.6	11.0
Great Britain ..	510.7	12.2	10.4	12.7	11.3	7.9
United States ..	378.1	9.0	10.7	10.4	8.4	12.9

On the import side, the share of the United States, though less than during the war, is greatly in excess of the pre-war share. Germany has not yet recovered her 1913 position. Great Britain is sending us less, especially coal. On the export side, we have almost recovered the old position in the German markets; France, Switzerland, and Great Britain are better customers for us, while the United States have put up high walls against our exports.

It is very unfortunate that Great Britain has abandoned the good practice of admitting our goods free, and is subjecting herself to obloquy by Safeguarding of Industries Acts and other protectionist measures, which are daily quoted by our protectionists as a proof that Great Britain is greatly obstructing our export trade.

## 105.

## ITALY

FOREIGN TRADE. — For the first eight months of 1922 Italy's imports were valued at 9,928.5 million lire and exports at 5,572.4 million lire, leaving an import excess of 4,356.1 million lire. This balance was smaller than

105. February 17, 1923, pp. 326-327. The article, unsigned, was published in the supplement: *The Economist. Commercial History & Review of 1922*. Its attribution to Luigi Einaudi is certain because the original manuscript, without title and date, is kept in the Einaudi archives.

that for the corresponding period of 1921, which was 5,292 million lire. Of the imports last year wheat accounted for about one-third.

**CROPS.** – Generally speaking, crops were not so large as in 1921, Northern Italy in particular suffering from drought. Wheat production was 43.7 million quintals against 52.5 million quintals in 1921, corn 18.0 million quintals against 23.5 million quintals, but grapes, with 53 million quintals against 50 million quintals, were better than in 1921.

**INDUSTRY AND EMPLOYMENT.** – Industrial production was not interrupted by strikes. The silk industry, favoured by a good crop of cocoons (311,000 quintals against 309,000 quintals in 1921), had a good season, except for the last two months, when the foreign markets were bad. Cotton and wool had a good year. Idle spindles were estimated at 10-12 per cent. in the first half-year, and decreased to 6 per cent. in the autumn. Sugar produced was 2,600,000 quintals against 2,030,000 quintals in 1921. Very good profits were reaped by the milling industry. Sulphur, iron and steel, chemicals, and shipbuilding had a bad year, owing to American competition in sulphur, low freights for ships, and the cessation of war demands for iron, steel, and chemicals. Unemployment has been declining during the past year. The official figure of the total number of unemployed was 541,775 in January and 354,238 in December. The number of strikes was the lowest since 1900. The labour market was not eased to an appreciable extent by emigration. Transoceanic emigrants were 31,291 in the first half-year against 122,390 in the corresponding period of 1921. Emigrants to European countries were 61,293 against 28,424 in 1921. Wages have been lowered.

**PRICES.** – Prices were lower than in 1921. *Bachi's* Index Number shows an almost continuous decrease up to May, 1922, when the total was 83.8 per cent. of the average for 1921. At this point reaction set in, and in October the maximum level of 96.2 was reached. The decline in foreign exchanges following the formation of the Fascist Government exercised a favourable influence on prices, which closed at 92.8. Textiles, minerals, metals, and chemicals were below the average, while food and meat went down.

**EXCHANGES.** – The average price of the dollar started at 23 lire in January, decreased to 18.7 lire in April, increasing afterwards in October to 24 lire, owing to the combined influence of the autumnal pressure and political unrest. With the usual easing of foreign purchases and the better political outlook dollars went down afterwards to 19.9 lire. The curve was not



differently shaped in the case of London and Swiss exchanges; but Paris cheque was naturally influenced by the vagaries of the franc. Starting from the maximum of 187.1 lire for 100 francs in January, the exchanges oscillated between 180.2 lire and 172.5 lire till October. In November the quotation fell abruptly to 151 lire, and in December to 143.7 lire. To-day, owing to Ruhr affair, the franc is even lower.

**MONEY AND STOCKS.** — The official Bank rate was reduced on July 11<sup>th</sup> from 6 to 5½ per cent. The volume of payments passing was less than in preceding years. The clearings at the Italian clearing-houses, which in 1921 had a maximum of 63,672 million lire in January and a minimum of 49,639 million lire in July, had in 1922 a maximum of 69,978 million lire in November and a minimum of 40,820 million lire in September. The paper circulation was 21,476 million lire at December 31, 1921, and was gradually reduced during 1922 till at November 10<sup>th</sup> it amounted to 20,479 million lire.

The improvement in stock exchange quotations is an index of increased hopes in the future of the country. The 3½ per cent. Rentes remained stationary between 71.93 and 71.65 in the first ten months of the year, but rose suddenly to 77.58 in November and 77.96 in December. In the variable dividend bearing securities market the tide was also rising. Taking as a basis (100) the average of prices for December, 1921, the index number of 135 leading securities (with an issued capital of 6,893 million lire) was 96.61 in January, decreased to 88.43 in April, rose to 103.01 in August, to 11.94 in November and 112.91 in December. Prices are, however, as yet at a lower level than in December, 1918. Taking that level as 100, the index was 63.84 in December, 1921, and 72.08 in December, 1922.

**PUBLIC FINANCE.** — Public finance is slowly improving. The figures for the three last budgets are as follows:

	(In Millions of Lire)		
	Expenditure	Revenue	Deficit
1920-21 .....	36,229	18,820	17,409
1921-22 (about) .....	26,000	18,000	8,000
1922-23 (estimated) .....	23,000	18,000	5,000

Public internal debt, which was 88,423 million paper lire at October 31, 1921, rose to 92,997 million paper lire at October 31, 1922, and was probably about 95,000 million paper lire at end of the year. External debt

(to Great Britain and United States) at October 31, 1922, was 21,811 million gold lire. The decrease in the budget deficit, which has been rapid in the last three years, is bound to continue, though perhaps somewhat more slowly. The last billion of deficit will be the hardest to cancel.

# 106.

## ITALY

### SHIPPING SUBSIDIES – FINANCIAL ASSISTANCE TO SHIPYARDS – PUBLIC REVENUE

*From our Correspondent*

Turin, February 27

Two Royal Decrees have been issued this month regulating shipping services and shipbuildings, two main causes of huge after-war expenses to the Treasury. Before the war shipping services cost the Italian Exchequer in subsidies 25,980,400 lire for annual voyages of 3,920,469 miles; to which were to be added an annual subsidy to the "Neerland" Company for a bi-monthly call at Genoa of one of its regular lines. The Austro-Hungarian Monarchy paid a subsidy of 13,803,630 kronen to companies now Italianised for a total yearly mileage of 3,760,232. The rise of costs during the war threatened to bankrupt all the companies; so that, after various experiments, the State requisitioned subsidised ships, paid all expenses, and received all freights. Companies became mere agents for Exchequer account, and received, in addition to the reimbursement of the current actual expenses, a percentage from 10 to 17 per cent. of freights and other revenue. Although the companies were thus interested in increasing revenues, expenses soon greatly exceeded receipts. The last two financial years closed thus:

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106. March 10, 1923, pp. 544-545. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin. Moreover, the treatment of the argument bears strong similarities with some of Einaudi's articles in *Il Corriere della Sera* (February 10 and March 25, 1923) entitled "Il decreto sui cantieri navali" and "Otto mesi di entrate pubbliche".

	1920-21		1921-22	
	Mileage	Loss Miln. Lire	Mileage	Loss Miln. Lire
Italian services .....	1,486,905	148.1	1,984,161	177.5
Ex Austro-Hungarian services ...	1,387,066	125.0	1,813,919	121.3
Total .....	2,873,971	273.1	3,798,080	298.8

For the current financial year 1922-23 the loss was estimated at 160 million lire for Italian services, and 140 for ex-Austro-Hungarian services, making a total loss of 300 million lire. The late Cabinet had made plans for returning to the old system of definite subsidies; the present Cabinet has carried this out. In virtue of agreements with the several companies (18 in all), the State will pay, as from January 1, 1923, an annual total subsidy of 147,290,000 lire for a total mileage of 3,522,820 miles. Of these 2,029,802 miles are said to relate to lines between the Continent and Italian Isles and colonies and other similar postal lines, while 1,493,018 miles relate to commerce. It is very difficult to say whether the cost to the Exchequer, especially of the commercial lines (postal lines are naturally to be run at loss), will be compensated by indirect advantages to the public. Where figures bearing on the question are available they make us doubtful. On the Genoa-Bombay line passengers were 3,478 in 1910-11, and after going to a maximum of 5,484 in 1912-13 relapsed to 3,014 in 1920-21. Goods carried at the same dates were 53,214, 63,290, and 41,355 tons. Not very good figures for justifying the huge subsidy paid by the State for the apparent purpose of promoting trade between Italy and India.

Another Decree regulates the difficult matter of encouragement to shipbuilding. Before the war there existed in Italy 10 shipyards, with a maximum building productivity of 80,000 tons yearly. The union of new provinces (Trieste and Istria and Litoral) added to this number six ex-Austro-Hungarian shipyards, some of them very good. Unfortunately, the after-war fever and some injudicious encouragement given by the Government added to the said number 11 other new shipyards. The productivity of all these old and new shipyards together can be now estimated at 250,000 tons yearly. The offer of new ships is thus much in excess of the maximum demand on the part of Italian shipowners, which, including demand from abroad, is well below 200,000 tons.

The new Decree has the great merit of not having accepted the request made by some shipyards, that the Government should order directly new ships for its own account, and should order them proportionately to the productivity of the shipyards, so that all could remain in existence. This



would have been the best way of continuing the present unsafe state of things, as all 27 shipyards would have survived. As 27 are too many, some of them are bound to be dismantled. The sooner this happens the better. But the Decree has not accepted the conclusions of a Naval Engineering Congress held at Genoa in the last days of December, which were in favour of the unlimited freedom of import of all material for shipbuilding. The Genoa meeting held that Italian shipyards would be capable in the main of meeting the competition of British or other foreign shipyards, if only they were enabled to buy materials in the best market. The Government apparently was not persuaded that this was the case as yet. After July, 1926, freedom will be granted to all imports needed for building ships, and at the same date premiums and other encouragements will cease. But for the intermediate period an intermediate system is to be maintained. Freedom of imports is only granted to metallic materials needed for the hulls of the ships, up to a maximum of 480 kilograms for every gross ton of ships. If, however, shipbuilders buy the same materials on the internal market, they will receive a premium of 120 gold lire per ton of material. As compensation for the higher cost of building in Italy, as compared with foreign countries, a premium of 55 gold lire is granted for every gross ton and for metallic hulls. If hulls are to be made in cement the premium is of 20 gold lire; if in wood of 15 gold lire. Exemption from the income-tax is granted for five years to all ships coming into effective navigation not later than December 31, 1923. The period of exemption is reduced to three years if ships enter into effective navigation as from January 1, 1924, to December 30, 1926. Special regulations are enacted for minor points. These grants will cost to the Exchequer 34,700,000 lire in the financial year 1922-23, 42,700,000 lire in 1923-24, and in 1924-25, and 29,900,000 in 1925-26.

That public revenue is stationary is the first impression made by figures of the first seven months of the financial year 1922-23, from July, 1922, to January, 1923:

(In Millions of Lire)

	1921-22	1922-23	Inc. or Dec.
Income and capital direct taxes .....	2,398.6	2,216.4	- 182.2
Stamp and registration taxes .....	1,497.4	1,422.1	- 75.3
Excises .....	1,330.0	1,537.5	+ 207.5
Monopolies .....	1,768.5	1,812.4	+ 43.9
Lottery .....	105.7	138.7	+ 33.0
Total .....	7,100.2	7,127.1	+ 26.9

But the figures, if justly interpreted, tell a more encouraging tale. Decreases in the yield of the income and stamp and registration taxes are due to transient reasons. In the income-tax category the decrease of 182.4 mil-

lions lire is the net result of a decrease of 435.6 millions lire in the war-profit tax yield, and of an increase of 253.4 millions lire in the various permanent taxes on incomes. That the war profit tax yield is gradually disappearing is natural, but that other income-taxes give so much more is an encouraging fact in view of the difficult economic period through which Italy, as other countries, is passing. The decrease of 75.3 millions lire in the yield of stamp and registration taxes is also the net result of a huge decrease of 151.5 millions lire in the stamp tax on bank of issue circulation, and a rise of 76.2 millions lire in all other stamp and registration duties. As a rise in the stamp tax on currency can only be the result of inflation, so the decrease is the result of deflation. So far the deflation is limited to one or two billions of lire, but none the less it is a gratifying fact, and therefore the corresponding decrease in the revenue is to be regarded also without regret.

## 107.

## ITALY

WHOLESALE PRICES – COST OF LIVING – STABILISATION OF THE LIRA –  
ABOLITION OF OBSTRUCTIVE TAXES AND A NEW TAX ON TURNOVER –  
HOTEL AND RESTAURANT TAXES

*From our Correspondent*

Turin, March 27

Professor Bachi's index number of wholesale prices, calculated on the basis of 1920's prices (100), has settled down in recent months. (See table at p. 284).

In this series a seasonal movement of prices is evident, which corresponds closely to the usual strengthening of foreign exchanges in the autumn and decreases in the paper cost of purchasing foreign goods in the spring months. It seems, however, that the worst point was in the autumn of 1920, when Italy was on the brink of a Bolshevik experiment. In recent months the general index would have been better if the Ruhr affairs had

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107. April 14, 1923, p. 789. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

	Nov., 1920	June, 1921	Oct., 1921	May, 1922	Oct., 1922	Jan., 1923	Feb., 1923
Vegetable foods .....	107.7	97.0	115.8	106.3	112.9	109.4	109.1
Animals .....	124.1	100.5	128.5	93.9	113.5	108.4	107.8
Chemicals .....	107.7	63.4	74.6	67.3	72.1	69.3	69.8
Textiles .....	94.0	45.8	75.6	65.7	84.6	80.8	83.0
Minerals and metals .....	101.4	60.4	64.1	57.5	69.1	62.5	64.3
Building materials .....	112.6	101.6	90.9	78.5	86.3	87.5	86.1
Miscellaneous vegetables .....	108.7	95.0	114.4	96.4	123.6	124.7	129.9
Miscellaneous .....	105.2	90.4	94.2	87.9	96.0	98.8	92.3
General index .....	107.3	81.5	95.9	83.3	96.2	96.2	93.2

not exercised an evil influence on the exchanges, and textiles had not gone up, according to a general world tendency. If the lira has not followed more strictly the vagaries of the French franc, the cause may lie in the increased hope that the public budget will balance, and that sales will be made of balances held by Italian business men in foreign centres. Not a few heads of trading firms used to hold balances in sterling or dollars as insurance against the risk of great and sudden increases in foreign exchanges. To-day they may hope that the lira will go on improving, and, by their realisations of balances, co-operate to keep down exchanges in face of the threatening international situation.

Retail prices and the cost of living are somewhat slow in following wholesale price variations. The cost of living of a working family of two parents and three sons (on the basis of the first half of 1914=100) is calculated as follows in Turin:

	Food	Clothing	House Rent	Heat & Light	Miscellaneous	General Index
January, 1920 .....	351	327	100	406	344	318
April, 1921 .....	534	497	110	417	544	470
July, " .....	446	411	110	354	537	405
January, 1922 .....	524	454	120	435	591	466
April, " .....	470	433	120	378	587	424
November, " .....	531	437	120	411	578	465
December, " .....	517	437	120	416	578	457
January, 1923 .....	499	433	120	423	574	446
February, " .....	484	435	120	428	574	438

We may observe here the same tendency towards maximum in the winter and minimum in summer and spring months. The average increase in the cost of living corresponds closely with the depreciation of the lira in gold; and as the gold has been depreciated itself, it seems that the purchas-



ing power of the lira is better in Italy than in foreign countries. When the July figures are forthcoming the house rent item will rise abruptly to about 200, as the new system of rent regulation by arbitration will then begin to be applied.

At the recent meeting of the International Chamber of Commerce held at Rome, a renewed proposal by Professor Cassel for the stabilisation of exchanges met with a very cool reception by the average public opinion in Italy. The motion was shelved under the guise of a vague acceptance of the principle. Public opinion in Italy still clings firmly to the hope that in some future day the lira will be restored to the old gold parity. No proposals for fixing the lira at, say, 25 cents gold has the slightest chance of being entertained by responsible statesmen or parties, notwithstanding that no one is capable of predicting when and how the full restoration to parity will be effected, and how it will be possible to overcome the great difficulties which would arise in the balancing of the public Budget and in the dislocation of industries. Perhaps time will work its own salvation, so that when stabilisation has been reached in fact, no one will cavil at a law to sanction it.

Signor De Stefani, Minister of Finance, has taken another step in the truly gigantic task of simplifying our complicated tax system. A decree of March 18, 1923, abolishes certain taxes: 1) On production of silk textiles, which was imposed at the rate of 10 per cent. on all natural and artificial silk goods, and greatly hampered the trade and export of this our greatest national industry; 2) on sales of gems and gold and silver goods, at a progressive rate of 5 to 20 per cent. As gems and gold objects are easily smuggled, the tax was scarcely productive, and encouraged the substitution of secret deals for honest and open commerce; 3) on sales of so-called luxury goods, at the rate of 12 per cent. of the price. The high rate of the tax favoured collusion between dealer and clients. In its stead, Signor De Stefani has enlarged an existing tax of 0.36 per cent. on all sales of goods between producers and dealers, and dealers and dealers. Excepting foods, all goods sold will be subject to a tax every time they change hands. The tax is somewhat on the pattern of the French turnover tax, with this difference, that it will not hit sales direct to final consumers, but only sales between the original importer or producer and the last dealer. The tax will be at the rate of 0.50 per cent. on the price of raw materials and agricultural produce, and of 1 per cent. on all other products. A select list of a few luxury goods (gems, ivory, motor cars, Oriental carpets, choice furniture, &c.) will be taxed at 2 per cent., and in these cases alone the tax will also affect the sales direct to final consumers.

Foreign travellers in Italy will be interested in another decree published on March 18, 1923, concerning taxes on expenditure in hotels and restaurants. All over Europe travellers are often bewildered at the variety of taxes and stamps laid on their hotel expenses and bills. From July 1, 1923, taxes will be laid as follow, without additions: Tax on hotels or pensions, 8 per cent. for luxury or extra category, 4 per cent. for first and second category, 0.50 per cent. every other category. Tax on restaurants (single meals): – Luxury or extra category, 1 lira for every person, irrespective of amount paid; every other category, inclusive of meals at clubs, &c., 20 cents., whatever the number of persons, if the amount paid is not higher than 20 lire per person; if the sum paid exceed 20 lire, a fixed tax of 20 cents and, in addition, 30 cents for every person.

## 108.

## ITALY

BANK OF ITALY REPORT – FOREIGN TRADE BALANCE –  
FLUCTUATIONS OF NOTE ISSUES AND DISCOUNTS – GOLD RESERVES

*From our Correspondent*

Turin, May 1

From the report of Signor Stringher to the last ordinary meeting of the shareholders of the Bank of Italy one can glean some interesting figures on commerce, banking, and finance in Italy. On the adverse foreign trade balance, which may be calculated at 6,000 million lire yearly, Signor Stringher remarks that Italy can only compensate it in the usual old way of remittances of Italian emigrants and expenses of foreign travellers. These are difficult to gauge, but remittances from emigrants through the agency of the Bank of Naples were in 1920 980,756,000 lire, in 1921 711,549,000 lire, and in 1922 525,688,000 lire. The Bank of Naples handles about a quarter of the savings of the emigrants, so that it may be calculated that remittances contribute over 2,000 millions to alleviate the annual indebtedness of Italy on the score of foreign trade.

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108. May 12, 1923, pp. 999-1000. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

The note issue at the end of the four last half-years was as follows (in millions of lire):

	Issued by Banks for the Account of the			Issued by the State	Gross Total
	Trade	State	Total		
June 30, 1921 .....	9,436.6	8,722.3	18,158.9	2,268.4	20,427.3
December 31, 1921 ..	10,704.1	8,504.8	19,208.9	2,268.3	21,477.2
June 30, 1922 .....	9,773.9	8,049.1	17,823.0	2,267.0	20,090.0
December 31, 1922 ..	9,935.4	8,076.6	18,012.0	2,267.0	20,279.0

The maximum was reached at the end of 1921, in consequence of the collapse of the Banca Italiana di Sconto; and it is easy to see that the banking issues on account of the State were not responsible for the rise, which was wholly limited to the issues on account of trade. This unfortunate affair retarded for a year a decrease which should have taken place in the note circulation. The losses will be borne ultimately by the taxpayers, as the Government, by a royal decree of January 2, 1923, agreed that three-fourths of the tax on notes issued above a certain limit and not covered by gold, instead of being paid into the Exchequer, should be paid from January 1, 1922, to December 31, 1925, into a special fund, which eventually will cover the losses incurred by the banks of issues on Banca di Sconto liquidation. An indication of the pressure exercised by these extraordinary rediscounts of banking bills may be gathered from the fact that the Consortium for industrial-securities, largely an offspring of the banks of issues, which rediscounts long-dated bills of industry and trade, increased its operations from 1,496 million lire in 1921 to 2,254 millions in 1922, and closed the past year with the big sum of 767 million lire in loans and discounts; to which were to be added 898 million lire of a special section of this same Consortium created for the rediscount of banking bills.

The bills discounted by the Bank of Italy increased, therefore, very largely. The following figures of such bills may give an idea of the extent to which bankers and traders had recourse to the aid of our first bank of issue (millions of lire):

November 20, 1921 .....	3,328.9	October 20, 1922 .....	4,365.3
December 31, 1921 .....	3,895.8	November 30, 1922 .....	4,596.2
January 10, 1922 .....	4,244.3	December 31, 1922 .....	4,635.3
April 30, 1922 .....	4,559.8	March 20, 1923 .....	4,288.6
June 30, 1922 .....	4,539.1		



The item of bills discounted by the Bank of Italy, which increased between November 20, 1921, and April, 1922, by the huge sum of 1,231 million lire, has fluctuated since; but at the end of 1922 was at its highest point. It is to be hoped that the decrease experienced in the New Year may not prove a merely seasonal movement. Loans on securities have done better; beginning at 3,669.5 million lire at January 31, 1922, they decreased, almost continuously, to 1,955.2 million lire at November 30, 1922, only to increase to 2,533 millions at December 31, 1922, owing to the usual end-of-the-year necessities.

While the official discount rate remained at 6 per cent. until July 10<sup>th</sup>, and was reduced to 5½ after that date, the average effective rate of discount applied was 5.55 per cent. in 1922, against 5.83 per cent. in 1921 and 5.69 in 1920.

A great deal of interest was aroused in Italy by Signor Stringher's utterance about gold reserves and the war transfer of gold to England. It appears that the reserves of the Bank of Italy varied thus (in millions of lire):

	December 31, 1915	December, 1922
Gold .....	1,077.4	883.9
Silver .....	104.8	75.8
Gold credits on foreign countries .....	48.1	320.1
Various .....	27.9	9.6
	<hr/> 1,258.2	<hr/> 1,289.4
Deposit of gold in foreign countries' certificates .....	73.7	381.4
	<hr/> 1,331.9	<hr/> 1,670.8

It was always the custom of the Bank of Italy to hold a part of its gold reserve under the form of gold credits on first-rate foreign banks. It was a sort of informal gold exchange system, and was useful, in old times, for the regulation of exchanges. But the item of "deposit of gold certificates" has to-day a wholly different signification. This sum of 381.4 million lire is a part of a greater sum of 562.3 million lire which the Italian Government deposited in London, at the request of British Government, for the sake of pegging the sterling exchanges in the common interest of the Allies. This is the sum which the British Premier proposed at Paris should pass to the British Treasury in part compensation of the cancellation of the Italian debt to Great Britain. We do not know in Italy if this same gold is counted somewhere in foreign gold reserve. If so, it would be necessary not to count it twice in figuring world gold reserves.

## 109.

## ITALY

SIGNOR DE STEFANI'S SPEECH – AN ITALIAN GEDDES COMMITTEE –  
 THE DEFICIT FOR 1923-24 – NEW DEBTS AFTER 1914 –  
 TREASURY CONTROL – ECONOMIC IMPROVEMENT

*From our Correspondent*

Turin, May 20

The great financial event of the week has been the speech of Signor De Stefani, Minister of Finance, at the Scala Theatre, in Milan. The interest centred in the final figure of the reduction of the deficit, which was the avowed aim of the Fascist Government to reach. The results of the work of a small committee may be summed up as follows: Net decrease in expenditure, 1,305 million lire; increased yield of revenue, 442 million lire; net reduction in the deficit, 1,747 million lire. The totals of revenue and expenditure estimated for the financial year 1923-24 are now, therefore, as follows:

	(Millions)		
	Revenue	Expenditure	Difference
Ordinary budget .....	14,332.5	12,368.8	+ 1,963.7
Extraordinary budget .....	1,233.0	5,812.8	– 4,579.7
Total .....	15,565.5	18,181.6	– 2,616.0

These figures call for comment. In the extraordinary revenue are included 1,000 millions for German reparations, a more than doubtful item, from which it may be expedient to deduct 750 millions. On the other side, in the ordinary expenditure there are included 1,153 millions as interest on the sums due to Great Britain and the United States. It may safely be assumed that not a penny will be paid on this score, at least in the next financial year. This is a matter which will be eventually arranged between interested Powers, but it seems useless to budget next year for payments which will not be made.

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109. May 26, 1923, pp. 1194-1195. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

The deficit of State Railways is estimated for 1923-24 at only 374 million lire. This may be, perhaps, too sanguine. And it may be that new unavoidable expenses may arise, which will add something to the deficit. Summing up, it seems probable that, with 750 millions less income than budgeted and 1,153 millions less cash expenditure, the Budget, even allowing for 400 millions unforeseen expenditure, will close with a deficit of about 2,616 million lire, as estimated by Signor De Stefani. Up to 1,500 millions, the ways and means to pay for this deficit are already provided, as the Government has announced its intention to pay no more war damages compensation in cash. Next year the sum of 1,500 millions, which is included in the above estimates of extraordinary expenditure, will be paid in the form of 25-year  $3\frac{1}{2}$  per cent. bonds compulsorily given at par. The remaining 1,100 million lire deficit will be easily covered by nine-years Exchequer 5 per cent. premium bonds, which find in Italy a ready market at an issue price of 99 or  $99\frac{1}{2}$ . The new internal debt created in Italy every year since the war may then be calculated as follows (in millions of lire):

1914-1915 .....	2,629.3	1919-1920 .....	13,117.5
1915-1916 .....	5,643.0	1920-1921 .....	13,513.5
1916-1917 .....	9,555.2	1921-1922 .....	6,286.1
1917-1918 .....	14,012.5	1922-1923 (estimated) .....	4,000.0
1918-1919 .....	11,961.0	1923-1924 (estimated) .....	2,616.0

The greatest decrease took place from 1920-21 to 1921-22, when Signor Giolitti abolished the bread subsidy, the greatest scourge of our Budget. After that great feat the betterment was continuous. The last billions are diehards indeed; and Signor De Stefani deserves great credit for the valiant efforts to eliminate the causes which compel the Treasury to incur new debts.

He is distinctly optimistic; and, truly, the fact that the ordinary Budget shows a surplus gives stimulus to hopes. But are extraordinary expenses bound to decrease? Of the huge sum of 5,812.8 millions, the greatest item, 1,500 millions yearly for war damages in invaded provinces, will disappear in about six years. Another formidable item – 1,318 millions of war pensions – will disappear also, if more slowly; it is estimated that the expenditure will fall below 1,000 millions in 1929-30, and below 500 millions in 1946-47. The railway deficit, estimated at 374 millions in 1923-24, should be cancelled in three years; and so will be cancelled the postal deficit of 81 million lire.

Signor De Stefani laid great stress on the efficacy of the British Treas-



ury in checking expenses and controlling expenditure departments. All efforts to increase the powers of the Italian Treasury over spending departments are meritorious; and to that end Signor De Stefani has decreed that the departmental accountants shall no more be appointed by the spending Ministers, but by himself as head of Treasury, and shall be the subordinates of the Accountant-General of the State. Ministers shall no more have authority to order departmental accountants to countersign an order of payments or expenditure. Expenditure will be authorised only when bearing the consent of the Accountant-General of the State and his subordinate officials. Perhaps this seemingly little reform will be the greatest achievement of the new Government in financial matters.

Economic conditions in Italy, as seen by Signor De Stefani, are improving. Unemployed, after increasing from 88,101 at July 31, 1920, to a maximum of 606,819 at February 1, 1922, decreased to 498,606 at April 1, 1922; reached bottom with 304,242 at August 1, 1922; increased as usual in the winter to a maximum of 391,974 at February 1, 1923, only to decrease to 280,201 at April 1, 1923.

Imports decreased from 17,267 million lire in 1921 to 15,728 in 1922, while exports increased from 8,275 to 9,293 millions, the adverse balance thus falling from 8,992 in 1921 to 6,435 millions in 1922. In the last three months for which figures are available – December, 1922, to February, 1923 – imports increased by 296 million lire, chiefly owing to larger takings of raw materials – *e.g.*, cotton, wool, coal, and metals; but exports increased 352 million lire, silk and cotton textiles and agricultural products contributing largely.

Railway traffics are also increasing; in the first quarter of 1923 11.8 million tons of goods were carried, against 9.5 million tons in the corresponding months of last year. Passengers were decreasing in numbers, in the last two months of 1922, but the total was gaining ground in the first two months of 1923.

## 110.

## ITALY

WHOLESALE AND RETAIL INDEX-NUMBERS – DEBATE ON TARIFFS—  
EXPORTS AND IMPORTS IN 1922 AND FIRST QUARTER OF 1923*From our Correspondent*

Turin, June 24

There is talk at present of a new increase in prices. The widespread impression that there has been an increase is not borne out by the Bachi's index number in the wholesale market, on the usual basis of 1920's prices 100:

	Nov., 1920	June, 1921	Oct., 1921	May, 1922	Jan., 1923	April, 1923	May, 1923
Vegetable foods .....	107.7	97.0	115.8	106.3	109.4	110.6	109.9
Animals .....	124.1	100.5	128.5	93.9	104.4	113.6	109.7
Chemicals .....	107.7	63.4	74.6	67.3	69.3	69.6	69.7
Textiles .....	94.0	45.8	75.6	65.7	80.8	83.0	81.6
Minerals and metals .....	101.4	60.4	64.1	57.5	62.5	65.5	65.0
Building materials .....	112.6	101.6	90.9	78.5	87.5	83.4	83.3
Miscel. vegetables .....	108.7	95.0	114.4	96.4	124.7	128.1	122.4
Miscellaneous .....	105.2	90.4	94.2	87.9	98.8	93.2	92.0
General index .....	107.3	81.5	95.9	83.3	92.1	94.2	92.9

The only difference in the figures for this spring is the maintenance of prices at the high level reached in the autumn and winter months; while in past years the months from March to June usually saw lower levels.

Retail prices, which are always slower to move, are as follows (the figures relate to the cost of living in Turin of a working family of two parents and three sons, on the basis of the first half of 1914=100). (See table at p. 293).

The characteristic of this year is the same as in the wholesale market: retail prices are not decreasing this spring as they did in past years. Food is dear, a strange thing in the face of a good season, with plenty of vegetables and very good prospects for fruits. The Government has taken various

110. July 7, 1923, pp. 20-21. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

	Food	Clothing	House Rent	Heat & Light	Miscellaneous	General Index
January, 1920 .....	351	327	100	406	344	318
April, 1921 .....	534	497	110	417	544	470
July, " .....	446	411	110	354	537	405
January, 1922 .....	524	454	120	435	591	466
April, " .....	470	433	120	378	587	424
January, 1923 .....	499	433	120	423	574	446
February, " .....	484	435	120	428	574	438
March, " .....	481	437	120	423	574	436
April, " .....	488	437	120	394	574	438
May, " .....	493	437	120	370	570	440

measures to prevent the rise of the cost of living, the most important being the abolition or lowering of various duties on animals, sugar, meats, oils, cheese. Yesterday there was held at Rome a great meeting convened by Signor Rossi, Minister of Trade and Industry, for the purpose of devising remedies against the high cost of living. Chambers of Commerce, municipal councils, and co-operatives gave various opinions on the causes of the rise in retail prices; increases of taxes on consumption (turnover tax), increases of rents of shops after the abolition of the rent restriction act and fixation of rents by arbitration tribunals; increased export of cheese, vegetables and meat; imperfect organisation of transport, and so on. Fortunately, notwithstanding some high words and threats of penalties against speculators and middlemen, no direct action by the Government was advocated. The Fascist Government gives no support to policies of maximum prices, restrictions of exports, or regulation of consumption.

The debate in the House of Deputies about the general customs tariff, although not formally closed with a vote, may be said to have come substantially to end. The protectionists mustered all their forces, and won a great deal of success. But the Government promised that the general tariff, although wanted for purpose of negotiation of the treaties of commerce with foreign countries, ought to be lowered in virtue of the lower treaty duties and the extension of the most favoured nation clause. Perhaps the most important outcome of the debate was a vote taken inviting the Government to abolish all duties on pig-iron and broken iron, and to substitute in their stead a system of premiums on pig-iron production which might be deemed necessary for the defence and independence of the nation. If we consider that the iron industry is at present the chief barrier against the adoption of a more liberal fiscal policy, that the premium system is more apt for measuring the exact sacrifice which the State is making for the sup-



port of so costly an industry, we may say that this House vote, if acted upon, is perhaps the most important step taken by the present protectionist majority of the Parliament.

The latest statistics of foreign trade relate to the first quarter of the year (in millions of lire):

Imports:	January	February	March	Whole Quarter
1922 .....	1,315.5	1,056.2	1,310.8	3,632.6
1923 .....	1,059.7	1,571.8	1,495.7	4,127.3
Difference .....	- 255.8	+515.8	+ 184.9	+ 444.7
Exports:				
1922 .....	619.9	720.1	716.1	2,056.0
1923 .....	788.8	750.4	886.7	2,425.9
Difference .....	+ 168.9	+30.3	+ 170.6	+ 369.9
Excess of Imports:				
1922 .....	695.6	336.2	594.7	1,626.6
1923 .....	270.9	821.9	609.0	1,701.4

The interesting fact is that figures are rising in both ways, indicating that trade is increasing. Wholesale prices, not being much different in the two periods, do not exercise a notable influence.

The distribution in 1922 of imports and exports among various classes was as follows (in millions of lire):

	Imports		Exports		Difference
		%		%	
Raw materials of industry ....	5,504.8	35.0	1,165.2	12.5	+ 4,339.6
Half-worked materials .....	2,825.7	18.0	2,816.0	30.3	+ 9.7
Finished products .....	2,394.3	15.2	3,126.7	33.7	- 732.4
Foods .....	5,003.5	31.8	2,184.9	23.6	+ 2,818.5
	15,728.3	100.0	9,292.8	100.0	+ 6,435.5

We see that what is called the adverse balance of Italian trade is due wholly to the necessity of importing vast quantities of food and of raw materials for the national industry. Raw material imports are likely to increase in the future; and the increase will be a good omen as a proof of better working capacity of our industry. The figures of food imports are not so encouraging. The most important items in food imports were: Wheat, 3,057; other cereals, 500.5; fish, 422.7; coffee, 305.8; meat, poultry, game, 191.2; cattle, 154.3, million lire. It should be possible to buy more manures and to improve agricultural methods, and, without increasing and even diminishing the planted area, to increase the cereal production. To many people it seems a pity that Italy, with so long a sea coast, should be obliged

to buy abroad such a vast quantity of fish (85,477 tons, of a value of 422.7 million lire). It seems that such a lamentable result is due to out-of-date methods of fishing. Public opinion was therefore delighted when it was announced that, following in the steps of the Duke of Abruzzi, who is conducting a great cotton enterprise in Italian Somaliland, the Duke of Udine, of the Blood Royal, intended to start a new experiment on a vast scale in fishing with modern apparatus and fleet. The fleet will fish not only in Italian waters, but also in distant seas.

## 111.

## ITALY

## RESTRICTION ON SALE OF OCCUPIED HOUSES —

## EXEMPTION FROM TAXES TO FOREIGN LOANS — SUCCESSION DUTY —

## INCREASE OF FAILURES

*From our Correspondent*

Turin, August 4

After my last letter, a group of interesting Royal decrees has been published in the *Gazzetta Ufficiale*. The War Rents Restriction Acts encouraged the sale of flats, and even of single rooms, to tenants as a means of escaping the ruin with which restrictions threatened the landlords. Proprietors, who received nothing, or almost nothing, as the net rent of their houses, were very glad to sell them piecemeal to their tenants; and tenants rejoiced in the hope of escaping future increase of rent, when freedom would be reintroduced in the rent-market, by the payment of a somewhat liberal capitalisation of present rents.

Rent restrictions were abolished by the Royal Decree of January 7, 1923; but the Arbitration Committees did not allow landlords to increase rents at will, with the result that piecemeal sales were encouraged. When tenants, owing to shortage of money, were unable to purchase flats or rooms occupied by them, a middleman took charge of the affair. He pur-

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111. August 25, 1923, p. 298. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Restriction on the sale of occupied houses. Exemption from taxes to foreign loans. Abolition of the succession duty. Wholesale increase of failures", dated "Turin, August 4, 1923", is kept in the Einaudi archives.

chased the house as a whole, and, by threats of selling the rooms to other people – who, as landlords, would have the right of evicting the present tenants, compelled tenants, however unwilling, to purchase at a high price. A decree of July 7, 1923, proposes to stop these speculative operations. In the event of sale, the new landlord is bound to respect current leases, and tenants cannot be evicted by new landlords.

The praise justly given to the royal Decree of December 16, 1922, exempting from Italian income-tax all loans issued in foreign countries for the purpose of importing new capital into Italy, gave place to criticism when the regulations were published recently. These prescribe that borrowers 1) must exhibit a public deed of loan; 2) indicate the use to which the proceeds of the loan will be applied; and 3) within six months of the provisional approval of the Finance Minister, give proof that the loan has been issued in conformity with the regulations. Then only will exemption be accorded; but it is always open to revocation if the proceeds are applied to purposes other than the original ones, or if other regulations are unobserved.

It is feared that those restrictions will somewhat limit the usefulness of the exemption-decree as a means of promoting the introduction of foreign capital in Italy, and it is earnestly hoped that, in his usual experimental way, the Finance Minister will simplify the procedure.

I have repeatedly called attention to the loud complaints aroused by the extraordinary severity of the succession duty, which comprises the taxes known in Great Britain as estate, succession, and legacy duty.

The rates are as follows, and fall on the amount severally received by heirs and legatees:

Lire	Father and Son	Grandfather & Grandson	Consorts (Husband and Wife)	Brother & Sister	Uncle and nephew	Grand Uncle and Grand Nephew and Cousins	Other Relations, & Strangers
1,000	Exempt	Exempt	Exempt	8-40	10-80	21-20	21-60
5,000	1-80	1-80	5-40	9-60	12	14-40	22-80
10,000	2-40	2-40	6	10-80	13-20	15-60	21
50,000	3-60	4-80	9-60	14-40	10-20	28-80	42
100,000	4-80	6	12	18	21-60	32-40	48
500,000	10-80	12	19-20	25-80	28-80	39-60	62-40
1,000,000	16-80	18	26-40	32-40	36	48	70-80
5,000,000	21-60	25-20	32-40	39-30	45-60	57-60	78
10,000,000	25-20	28-80	36	43-20	50-40	62-40	81-60
20,000,000	28-80	32-40	39-60	46-80	54	67-20	86-40
Over 20,000,000	32-40	36	43-20	50-40	57-60	72	90



In certain cases additional taxes are imposed, and when it is remembered that debts are not wholly deducted, that valuations are often very high, and that money, jewels, and furniture are valued at fixed rates, it is not surprising that heirs or legatees frequently prefer to relinquish their rights wholly to the benefit of the exchequer.

When the present Minister took charge of his office hopes were held of a betterment, but, as time went on, it was feared that nothing would come out of these. Suddenly Signor De Stefani proposed in the Cabinet Council that the succession duty should be wholly abolished in the family group, and the proposal was unanimously carried. It appears that this category comprises parents and sons, brothers and sisters, and husband and wife. The succession duty is to be retained only between uncles, nephews, cousins, and strangers, but rates will be reduced in these cases.

The reform is a bold one. Perhaps 85 per cent. of the present yield of the tax is to be given up. As the yield was in the present year about 300 million lire, the sacrifice on the part of the exchequer is considerable. Signor De Stefani briefly sums up the reasons in favour of the abolition of the tax: 1) The reinforcement of the family institution; 2) the injustice of the existing tax, which leaves scot-free almost all movable wealth and bearer securities, and which bears almost exclusively on real property; 3) the injustice of a tax which weighs more on the South than on the North of Italy, as in the South the wealth consists in very large measure of land and houses, which cannot escape taxation; 4) the stimulus which should thereby be given to savings.

As in other countries, the war had a beneficial effect on the number of failures, but this result was really quite abnormal. Profits were high enough to allow even inefficient men and badly managed enterprises to prosper. In 1921 the laws of competition re-asserted themselves, and failures increased. The increase is progressing in 1923:

	1921	1922	1923
January .....	82	132	402
February .....	71	258	367
March .....	99	332	437
April .....	114	261	431
May .....	96	288	473
	<hr/> 462	<hr/> 1,371	<hr/> 2,110

While the average figures of 1912-1915 have not as yet been reached, progress towards a normal elimination of the unfit is noteworthy.

112.

ITALY

NATIONAL FEELINGS ON THE GREEK AFFAIR –  
POLITICS AND LABOUR CONGRESS – SPLITTING OF AGRICULTURAL LAND –  
RATES OF THE SUCCESSION DUTY – OCTROIS AND THE MUNICIPALITIES

*From our Correspondent*

Turin, September 14

A great stirring of national feeling took place last week over the massacre of General Tellini and his officers in Greek territory. The nation stood firmly behind the Government while the issue was pending, and the whole situation was characterised by an unusual absence of public meetings and utterances calculated to embarrass the Government. From the Italian point of view, the Government's conduct was founded on a firm determination to obtain the proper reparation for the truculent deed. Times are past when Italians could be slain in foreign lands and the Government content itself with languid protests.

Domestic politics are quiet in this summer season. After the passing of the Bill for the new electoral system through the Chamber of Deputies, Signor Mussolini decided not to urge it through the Senate, and declared that general elections are not to take place shortly. As the new electoral system gives 356 places out of 534 to the party which receives the greatest number of votes, and not less than 25 per cent. of all votes polled, the Government is sure of a large majority in the next Chamber. It is highly improbable that the Socialist party, which at the two last General Elections polled the largest individual party vote, will next time take the lead. Socialism is splitting into minute factions – communists, revolutionary, giron-dinos, and so on. The General Labour Confederation at its meetings from August 23<sup>rd</sup> to 25<sup>th</sup> at Milan proclaimed its independence from all political parties – a novelty for a movement which was until lately almost identified with Socialism. There has been much talk of some representatives of the Labour Confederation going into the Mussolini Cabinet as under-secre-

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112. September 22, 1923, p. 440. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

taries; but so far nothing of the sort has happened. The severance of Labour men from Socialism is highly significant. The masses have tired of Socialist promises, and are increasingly inclining to the strenuous life ideals.

While industrial Italy is making great strides, in the agricultural world the old tendency towards the splitting up of the land in favour of small proprietors continues to gain ground. Recent statistics of the Finance Department tell us that the number of land and house sales, which amounted to 343,362 in the financial year 1914-15 rose to 508,440 in 1920-21, and to 489,803 in 1921-22. As the only buyers of agricultural land are farmers (*contadini*) it is easy to see how rapidly land is passing into the hands of small direct cultivators. There are villages, especially in the North of Italy's mountain and hill regions, where not a single non-cultivating great landholder survives. The great movement of property from class to class took place without Government aid and without credit organisation, and was almost entirely financed by the savings of the peasant class.

From the point of view of giving security to family holdings and to the saving tendencies of this great landholding community, the bold decision of Signor De Stefani, Minister of Finance, to abolish the succession tax will have beneficial effect. The decree was finally signed by the King on August 20<sup>th</sup>, and abolishes the tax on all successions between 1) parent and sons, grandfather, grandmothers, and descendants in direct line; 2) husband and wife; 3) brothers and sisters; 4) uncles and nephews. As to all other successions, between other relatives and strangers, the tax is only graduated in relation to the sum received: 12 per cent. up to 10,000 lire, 15 per cent. from 10,001 to 25,000 lire, 18 per cent. from 25,001 to 50,000 lire, 22 per cent. from 50,001 to 100,000 lire, 26 per cent. from 100,001 to 250,000 lire, 30 per cent. from 250,001 to 500,000 lire, 35 per cent. from 500,001 to 1,000,000 lire, 40 per cent. from 1,000,001 to 5,000,000 lire, 45 per cent. from 5,000,001 to 10,000,000 lire, 50 per cent. over 10,000,000 lire. The old tax went up to over 100 per cent. in big successions, so that the new scale will prove a great boon to many embarrassed heirs, who were frequently obliged to relinquish the estate, not being able to pay the succession tax.

Signor De Stefani is quietly adding, almost every week, something to his rebuilding of our financial system. His last decree allocates to the municipalities the entire yield of the *octrois* or duties paid on the retail sale of some goods on their entrance in towns. The yield was hitherto shared between State and municipalities in a mysterious and complicated way. In some cases the State paid the cost of the collection, but the yield was received by the municipalities. The new decree sweeps away all those techni-



calities, and gives the whole yield of the tax and the whole responsibility of the collection to the municipality.

### 113.

#### ITALY

PRICE VARIATIONS — GOOD CROPS AND VINTAGE — COST OF LIVING RISING —  
WORKING-CLASS SAVINGS AND UNEMPLOYMENT —  
THE NEW REGULATION OF THE PUBLIC SERVICES

*From our Correspondent*

Turin, November 24

Average wholesale prices have remained fairly stationary recently, as Bachi's index numbers show:

(1920 = 100)

	June, 1921	Oct., 1921	May, 1922	April, 1923	July, 1923	Oct., 1923
Vegetable foods .....	97.0	115.8	106.3	110.6	103.8	93.6
Animals .....	100.5	128.5	93.9	113.6	103.5	109.7
Chemicals .....	63.4	74.6	67.3	69.6	68.0	67.2
Textiles .....	45.8	75.6	65.7	83.0	84.5	89.2
Minerals and metals .....	60.4	64.1	57.1	65.5	64.9	65.1
Building materials .....	101.6	90.9	78.5	83.4	84.0	84.0
Miscellaneous vegetables .....	95.0	114.4	96.4	128.1	101.0	101.2
Miscellaneous manufactured .....	90.4	94.2	87.9	93.2	96.9	97.9
General index .....	81.5	95.9	83.3	94.2	90.6	90.2

The selected figures, up to April, 1923, are those of the highest and lowest average index numbers. Despite the stability of prices in general, particular variations are startling. Vegetable foods and miscellaneous vegetables have fallen most, owing to the excellent crops of this year. The wheat yield is estimated at 61 millions quintals, as compared with 38, 52, and 44

113. December 8, 1923, pp. 1014-1015. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because a section of the original manuscript, entitled "Price variations. Good crops and vintage. Cost of living rising. Working-class saving and unemployment. The new regulation of public services", dated "Turin, November 24, 1923", is kept in the Einaudi archives.

millions in the years 1920, 1921, and 1922 respectively. Internal prices of wheat have therefore fallen below the parity of foreign imported wheat. Imports can only be effected at about 110 lire per quintal, while home wheat is selling at 85, to the great discomfiture of the Italian producers. The cry for protection is again heard, curiously enough, though protection could only raise the cost of the imported commodity higher than 110 lire, while the internal price refuses even to reach the present parity. The vintage was also very good. Against 31.9 and 35.6 millions hectolitres of wine produced in 1921 and 1922, production this year is variously estimated at between 45 and 55 millions. Grape prices have been enormously reduced, the general average price at Casale, one of the most important markets in northern Italy, now standing at 77.6 lire, as compared with 173.7 last year.

Cost of living has not felt, as yet, the beneficial effect of favourable crops. Index numbers of the cost of living in Turin of a working family of two parents and three sons, taking the average for the first half of 1914 as 100, is as follows:

	Food	Clothing	House Rent	Heat and Light	Miscellaneous	General Index
January, 1920 .....	351	327	100	407	345	319
July, " .....	409	479	100	415	456	384
January, 1921 .....	513	547	100	527	514	467
July, " .....	446	411	100	354	537	405
January, 1922 .....	524	454	120	435	591	466
July, " .....	487	433	120	365	584	437
January, 1923 .....	499	433	120	423	574	446
February, " .....	484	435	120	428	574	438
March, " .....	481	437	120	423	574	436
April, " .....	488	437	120	394	574	438
May, " .....	493	437	120	370	574	440
June, " .....	501	441	120	366	577	445
July, " .....	498	434	200	376	580	454
August, " .....	509	450	200	406	577	464
September, " .....	506	450	200	437	577	464
October, " .....	504	450	200	447	577	463

The rise in the cost of living, which has taken place since July, has two main causes; the rise in house rents, which came into force on July 1<sup>st</sup>, when the system of free bargaining, with the right of appeal to judicial arbitration, was substituted for legislative restriction, and the rise in coal and wood due to the stoppage of German reparation deliveries.

Perhaps as a consequence of the persistent high cost of living, the increase in saving deposits is slowing down. The deposits of the ordinary savings banks, which were 2,727 millions lire on December 31, 1913, rose to 9,294 millions in December, 1922, and went to 9,896 millions by January

31, 1923, owing to the capitalisation of interest due to depositors for the year 1922. At June 30<sup>th</sup> last the sum was 10,107 millions, an increase of only 2 per cent. in the five months. On the other hand, the public pawn offices recovered the customers lost during the war, and in the immediate post-war years. The number of new pawn-loans was 1,071 in December, 1921, while loans totalled 146.6 millions lire. In the months of December, 1922, and August, 1923, the numbers had risen to 1,177 and 1,337 respectively, and the sums loaned to 176.4 and 199.6 millions lire. Unemployment is, however, diminishing; 270,214 at April 30<sup>th</sup>, 243,928 at May 31<sup>st</sup>, and 216,287 at June 30<sup>th</sup>. The only exception to the decrease is the chemical industry. The greatest unemployment to-day is in Lombardy, with 44,184 unemployed, while the lowest is in Basilicata with only 76. The working-world seems thus to be passing through the hard times of high prices and high costs of living, perhaps with some inroads on past savings, but with a noteworthy measure of success in the main.

The most important piece of legislation in the current month was the Royal decree of November 11, 1923, on public service rearrangement. All categories of public servants, excepting railway men, are comprised in the regulation. The number of public servants was as follows:

	1914	Present Numbers		New Regulations
	A	B	C	D
Civil servants .....	103,643	136,012	115,501	110,467
Military commissioned officers .....	18,178	22,986	24,609	22,866
Non-commissioned military officers	28,523	47,943	44,072	48,638
	150,344	206,941	184,182	181,951

The A, B, and D figures are legal or theoretical ones, *i.e.*, of the number of public servants who ought to be on the pay-roll if all the places were occupied. In practice, owing to dismissal, deaths, &c., the actual number is always lower than the theoretical one. Signor De Stefani, in the new regulation, has contrived to keep the number of public servants not only much below the present theoretical maximum number, but also somewhat below the actual number. This amounts to expressing the hope that the actual number will be even lower. It is, alas, well over the 1914 figure, specially for the non-commissioned military officers, whose number has greatly increased in consequence of the increased duties laid on the police force (Reali Carabinieri) and on the Excise and Custom armed force (Guardie di Finanza).



The most interesting feature of the new regulations is the uniform classification of all public servants, military and civil, into 13 classes. The system is akin to the prewar Austrian system. All public servants are assimilated to various military ranks, and enjoy the same salary which progresses uniformly from class to class. This Royal decree will probably be the Magna Charta of the public services in Italy for a long time. Perhaps the principal object of this general militarisation is not so much economy (to begin with the reform, with consequent variations of pensions to retired servants will perhaps cost 300 millions lire yearly), as the restitution of hierarchy and discipline among a body which at a certain moment threatened to become a mob. In the war and early post-war years, the salaries of humble servants had become about as high as those of departmental heads and great judges. When a section of public servants menaced stoppage of work, their salaries were increased under the stress of fear. Soon after agitation spread among the others, and the cost went up by leaps and bounds. The new regulations recreate a hierarchy, and put all servants of the same class on an equal footing. It will not be possible to increase the salaries of military men, or of postal servants, or of teachers only. All will be obliged to go up or down at the same time, and it is hoped that the new system will give force to the government to resist sectional pressure, as a concession to a section will imply an all-round increase of cost.

## 114.

## ITALY

THE INTERNATIONAL BALANCE OF PAYMENTS –  
NEW SAVINGS AND THEIR INVESTMENTS

*From our Correspondent*

Turin, December 26

Very wild statements have been published from time to time about the international balance of payments between Italy and foreign countries.

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114. January 5, 1924, pp. 19-20. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "The International balance of payments. Banking and state paper issue. New savings and their investments" and dated "Turin, December 26, 1923", is kept in the Einaudi archives.

Fortunately an inquiry by Professor Jannaccone, published in a new edition of "Documents on the Financial and Economic Situation of Italy", presented by the Minister of Finance, Signor De Stefani, to Parliament, gives, for the year 1922, a new estimate of the complete balance of payments (in millions of lire):

	Credit	Debit
Difference between imports and exports of goods .....	-	6,462.4
Difference between imports and exports of gold and money .....	-	37.7
Difference between sums remitted to Italy and those brought about by emigrants .....	3,400.0	-
Difference between passive and active freights for the transportation of emigrants and travellers .....	115.6	-
Goods freights due to the Italian mercantile marine .....	527.0	-
Difference between expenditure of Italian mercantile marine abroad and foreign marine in Italy .....	-	203.1
Difference between sums due and sums credited for international railway services .....	-	132.3
Difference between sums spent by foreign travellers in Italy and Italians abroad .....	2,500.0	-
Difference in postal remittances between Italy and foreign countries .....	274.7	-
Interests on Italian public debt paid abroad .....	-	115.6
Interest on banking current net accounts .....	-	140.0
Difference between profits of Italian firms abroad and foreign firms in Italy .....	30.0	-
War reparations received from Germany (net cost of occupation, control, &c., expenditure) .....	440.5	-
	<hr/>	<hr/>
Public debt bonds sold in foreign countries, mostly to Italian emigrants .....	7,287.8	7,091.1
Repayment of public debt bonds, sold and repaid in foreign countries .....	460.0	-
Purchase of foreign securities .....	-	412.8
To balance: Italian credit at the end of the year .....	-	12.0
	<hr/>	<hr/>
	7,747.8	7,747.8

The balance of payments last year was thus closed very favourable to Italy. It should be added that, while the 412.8 millions of public debt bonds were repaid to foreign Governments, such as Brazil, &c., who, during the war, sold goods to Italian Governments without payment in cash, the 460 million lire of bonds sold in foreign countries cannot be considered as true debts to foreigners, as it is highly probable that they were bought by Italian emigrants, who will reinvest the yearly accruing interests in Italian securities.

The above is an official, *i.e.*, a very prudent, estimate, whose errors, if

any, are on the adverse side. A private investigator, Signor Mazzucchelli, author of an interesting booklet, "Dati finanziari italiani", published by the *Credito Italiano*, draws an even more favourable picture for the same year, 1922 (millions of lire):

	Credit	Debit
Difference between imports and exports of goods .....	—	5,300
Difference between active and passive freights and other items ..	300	—
Difference between sums spent by foreign travellers in Italy and Italians abroad .....	2,500	—
Remittances of Italian emigrants abroad to Italy .....	3,600	—
Interest on foreign capital, commissions and profits of foreign firms, maritime insurance, &c. ....	—	350
Interests on Italian public debt and others paid abroad .....	—	300
Interest on Italian securities held mostly by Italians in America ..	—	200
Interests on Italian capitals invested abroad .....	500	—
	<hr/> 6,900	<hr/> 6,150
Sale of Italian securities abroad .....	500	—
Difference between Italian investments abroad and foreign invest- ments in Italy .....	—	250
Nationalisation of foreign companies in Italy and repayment of Ita- lian debts to foreign creditors .....	—	1,000
	<hr/> 7,400	<hr/> 7,400

In 1922 we invested in foreign countries or paid debts to foreigners up to 1,250 million lire, while we sold securities or indebted ourselves only to the extent of 500 millions, and such securities were, moreover, sold to Italians living abroad.

Various other interesting figures could be extracted from Signor De Stefani's report, or Mazzucchelli's brochure. Among other things they show that the gold-value of the lira, after touching bottom in 1920, has not varied much in the last three years. This fact was favourable to savings, which can be said to have increased in proportion to the depreciation of the lira. Deposits in saving and other banks were:

	Millions of Lire
At June 30, 1914 .....	7,822.7
1918 .....	12,587.8
1921 .....	27,889.2
1922 .....	28,819.1
1923 .....	32,334.0



Correspondent accounts - such is the name by which many current deposit accounts are styled in Italy - in banks with more than one million lire capital were:

	Millions of Lire
At December 31, 1913 .....	1,053.2
1918 .....	6,308.1
1921 .....	14,013.2
1922 .....	14,746.2

The total of national savings invested in banking deposits, current and correspondent accounts, amounted, according to Signor Mazzucchelli, at December 31, 1922, at 50 milliards lire, and increased to 53 milliards at June 30, 1923. The new savings invested in State bonds, public and private securities, banking deposits, current and correspondent accounts, house building, industries, agricultural improvements, and in various other sundry ways may be estimated in all for 1922 at 12 milliards lire. In 1891 the then director general of the National Statistical Service, Signor Bodio, estimated the annual increment of the national wealth at 500 millions lire. Even after taking into account the depreciation of the lira, the present 12,000 millions, brought down, for the sake of comparison, to 2,000 millions [gold-1891] lire, compare very favourably with the 500 millions lire which was the figure for that date. It is significant that new savings are being increasingly invested in industrial enterprises. The number and capital of joint-stock companies have increased as follows:

	Number	With a Capital of Millions Lire
1863 .....	379	1,331
1880 .....	581	1,811
1913 .....	2,882	5,170
1920 .....	5,995	17,683
June 30, 1923 .....	7,266	22,706
November 30, 1923 .....	7,683	23,755

The few figures given above may be taken as a good omen for the economic progress of Italy in the New Year.

## 115.

## ITALY

WHOLESALE PRICE VARIATIONS – COST OF LIVING –  
IMPROVING PUBLIC FINANCE – PUBLIC DEBT*From our Correspondent*

Turin, January 28

Average wholesale prices have increased a little in the month of December, as the new Milan Chamber of Commerce's index (basis 1913=100) shows:

	Average May-Decem. 1921	Average 1922	Jan. 1923	April 1923	August 1923	Decem. 1923	Average 1923
Vegetable Foods .....	516.8	555.2	546.5	567.1	515.3	497.9	533.9
Animals .....	649.4	587.4	531.6	570.6	562.5	588.8	566.8
Textiles .....	480.1	533.1	618.9	656.3	651.7	743.9	673.3
Chemicals .....	440.1	437.2	407.3	525.9	427.8	410.0	421.6
Minerals and metals .	514.4	524.1	525.6	570.9	544.3	548.2	547.7
Building materials ....	570.3	519.7	529.9	519.4	517.6	531.6	519.0
Miscell. vegetables ....	499.5	508.2	560.7	598.1	429.8	459.1	515.9
Miscell. manufactured	537.5	535.8	534.5	533.8	541.9	529.6	554.6
General index .....	516.5	529.3	523.5	549.7	527.0	534.8	535.8

I have quoted for 1923 the opening and the closing month and the intermediate minimum (August) and maximum (April). The average for 1923 is slightly higher than for 1922, and therefore the purchasing power of the lira is lower. The greatest increase was in the textile group, owing to international change in the prices of cotton, wool, and silk. Cost of living was also slightly higher in 1923. The Index number of the cost of living in Turin of a working family of two parents and three sons, taking the average for the first half of 1914 as 100, is as follows:

115. February 9, 1924, pp. 251-252. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Wholesale price variations. Cost of living. Improving public finance. Treasury 6 months or less bill's issue suspended. Public debt" and dated "Turin, January 29, 1924", is kept in the Einaudi archives.

	Food	Clothing	House Rent	Heat and Light	Miscellaneous	General Index
January, 1920 ....	351.0	327.2	100	406.5	344.5	318.5
July, " ....	409.3	479.0	100	415.0	455.8	384.4
January, 1921 ....	513.1	547.3	110	527.3	513.6	467.4
July, " ....	446.2	411.4	110	354.2	537.1	404.7
January, 1922 ....	523.7	454.2	120	435.3	590.7	465.6
July, " ....	487.3	432.6	120	365.3	584.1	436.9
January, 1923 ....	499.0	432.6	120	423.4	574.4	446.0
July, " ....	498.0	434.6	200	376.1	580.0	453.6
December, " .....	504.7	470.3	200	460.0	577.3	466.6

The hardening impression is confirmed by the annual average, which were for the general index 337.73 in 1920, 449.19 in 1921, 448.09 in 1922, and 451.59 in 1923.

Public finance is improving. The Finance Minister has suspended the issue of Treasury bills for six months or less. The current income for the first six months of the financial year (July to December, 1923) was 8,546.6 million lire, against an estimate of only 7,832.3 millions, or an increase of 732.3 million lire, while the expenditure was 8,771.2 millions, against an estimate of 9,362.5 million lire. It was thus possible to limit new debt and to begin making a reduction among various kinds of debt. A comparison of public debts at June 30, 1923, and December 31, 1923, shows that a net reduction of 234 million lire has been effected in internal debt in that period.

The outstanding external debts are exclusively towards the Governments of the United States (8,536.8 million lire) and Great Britain (13,858.4 million lire).

This item of external debt is the only remaining stumbling-block in our public finance, as it means a *paper* debt of about 90,000 million lire, or more than the whole internal debt. Public opinion is increasingly leaning toward the old idea of the contemporaneous adjustment of inter-allied debts and war reparation. The recovery of our national finance would be otherwise impossible.

There has been in the last six months an increase in long-dated loans and bonds (war indemnities loan dated 25 years and nine years Treasury bonds), and a decrease in short-dated Treasury bills. The volume of these latter is too great, but it is hoped that by not reissuing bills of less than six months' currency the total will become more manageable. Italian Bourses have greeted with enthusiasm the news of the suppression of the issue of short bills 5 per cent. Consols, which opened the new year with a quotation



of 89.28 per cent, close to-day at 92.95, and 3.50 per cent. old Rentes rose between the same dates from 76.79 to 80.80. Bourses are very animated, and great advances have been made not only by fixed-interest securities, but also by variable dividend shares.

## 116.

## ITALY

FOREIGN TRADE. — From July 1, 1921, at which date the statistical method of valuing goods imported and exported was changed, to November, 1923, the figures are as follows (in millions of lire, precious metals excluded):

	Imports	Exports	Excess of Imports Over Exports
1921 - July to December .....	6,645.7	3,939.0	2,706.7
1922 - Whole year .....	15,764.5	9,302.2	6,462.3
1923 - January to November .....	15,365.7	9,454.1	5,911.6

For the whole of 1923 the import balance will be about the same as in the preceding years.

CROPS. — Agricultural results were very good. Whereas the average wheat crop was 4,989,600 tons in 1909-13, and 4,831,700 tons in 1919-23, the 1923 crop reached 6,070,000 tons. The yield per hectare was 13.1 quintals, the highest since 1909, and probably since 1860. Grapes were also much better. In the old provinces the yield was 81.7 million quintals, against an average of 59.8 in 1910-21 and 54.4 in 1922; in the new Venetian provinces 2.2 millions, against 1.8 and 1.9 respectively in 1921 and 1922.

INDUSTRY. — The silk industry benefited from a good crop of cocoons, amounting to 58,000 tons, against 43,500 in 1922, 42,900 in 1921, and 41,200 in 1920. The total value of silk products, which may be put at 600-650 millions lire before 1914, increased to 2,800-3,000 millions lire

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116. February 16, 1924, pp. 310-311. The article, unsigned, was published in the supplement: *The Economist. Commercial History & Review of 1923*. Its attribution to Luigi Einaudi is certain because the original manuscript, without date and entitled "Foreign trade returns", is kept in the Einaudi archives.

in the financial year 1922-23. Cotton was fairly active. The consumption of raw cotton, which was 909 thousand bales yearly in 1911-13, and decreased to 770 thousand in the cotton year 1919-20, reached 893 thousand in 1922-23. The number of bales consumed in 1922-23 per 1,000 spindles was 196, against 172 in 1912-13. The Italian cotton industry may be estimated to have added, in 1922-23, a value of over 3,000 million lire to raw cotton and materials imported and used, against 420 millions in 1909-13. The woollen industry works mostly for the home market, and the value of the total output (40,000 tons in 1923, against 30,000 tons in 1913) may be estimated at 1,500 million lire. Iron and steel had an indifferent year, but not more so than in 1922. A marked decrease has been registered in the number and importance of strikes. For the years ending October 31, 1921, 1922, and 1923, the number of strikes was 1,223,680 and 156 respectively, and of days lost 8,210,811, 7,336,393, and 246,975 respectively. The number of unemployed, 391,974 on January 31, 1923, slowly but continuously decreased to 178,612 in August, and rose again to 199,694 in October.

PRICES AND WAGES. - The following indices have been compiled by Professor Mortara:

	Paper Issue	Paper Price of Gold	Wholesale Prices	Cost of Living	Wages
Basis 1913-14 .....	100	100	100	100	100
1921, 1 <sup>st</sup> half-year ...	772	460	551	560	540
1921, 2 <sup>nd</sup> " .....	760	455	525	522	520
1922, 1 <sup>st</sup> " .....	751	389	517	503	515
1922, 2 <sup>nd</sup> " .....	751	430	542	498	505
1923, 1 <sup>st</sup> " .....	716	401	539	495	485
1923, 2 <sup>nd</sup> " .....	727	442	531	491	475

Both wages and cost of living have increased nearly five-fold since 1913-14. Prices have not risen in proportion to increase in the paper issues.

MONEY AND STOCKS. - The official rate of discount has been firm at  $5\frac{1}{2}$  per cent. though the call on the money market is increasing. The clearings at the Italian clearing-houses, which in 1920 amounted to 578,030 million lire, were 690,821 millions in 1921, 601,851 millions in 1922, and 829,500 millions in 1923. The price of  $3\frac{1}{2}$  and  $5\frac{1}{2}$  Consols, which touched bottom in October, 1920, at 67.26 and 69.23 respectively, were 77.86 and 86.96 at the end of December, 1922, and increased almost continuously to 86.96 and 91.58 at the end of December, 1923. Professor Bachi's index number of Italian share-values, on a basis of 100 in December, 1918, rose to 110.02 in the "boom" of 1919, and subsequently reached its lowest point, 56.45,

in April, 1922. The year 1923 opened with an average of 72.82 in January. In August the index rose to 80.53, and in December to 85.67. The greatest rise occurred in silk; shares (286.74), cotton shares came a good second (246.02), then wool (223.41) and hemp (222.54) - all textiles. At the bottom were shipping shares, which, however, rose from 62.06 in December, 1922, to 67.79 in December, 1923; and iron and steel, which rose from 20.33 to 22.44.

**PUBLIC FINANCE.** - Excluding foreign debt, new debts incurred for balancing the public Budget amounted in 1918-19 to 11,800 million lire, in 1919-20 to 10,865 millions, in 1920-21 to 11,224 millions, in 1921-22 to 6,232 millions, and in 1922-23 to 2,605 millions. In the second six months of 1923 only 517 millions of new debt were contracted. The year marks a definite improvement in the situation. State and municipal finances are well on the way to equilibrium; the money market has been restored to a normal state; the worst period in the iron and steel industry has passed, and great progress has been made in other staple industries.

## 117.

## ITALY

GENERAL ELECTIONS - BOOM IN STOCK EXCHANGES -

CREDIT FOR EMIGRANTS - RENT RESTRICTIONS -

STATE CONTROL OF TRADE UNIONS

*From our Correspondent*

Turin, March 2

On February 26<sup>th</sup> the General Election campaign was officially inaugurated. There are 20 parties or candidates' lists in the field - 13 national and seven purely local parties. No one, except the Fascist list, aspires to gain the majority (355 places out of total of 535). The 355 candidates placed on the Fascist list, and agreed by Signor Mussolini, are practically sure

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117. March 15, 1924, pp. 586-587. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, without date, entitled "General elections. Boom in stock exchanges. Credit for Italian work abroad. New restrictions for house leases and rents. State control on trade unions", is kept in the Einaudi archives.



to be elected at April 6<sup>th</sup>, as no other list can contest the first place or hope to muster the 25 per cent. of the votes polled, which are necessary for victory. The change from 1919 and 1921, when the electors sent to the House over 150 Socialists and Communists, all over 100 Populars (Catholics) is indeed extraordinary. All the other 19 lists of candidates struggle only for the conquest of the 180 minority places. Fascists will have a share also of minority, as, in four electoral districts out of 15, they offer themselves in an additional minority list. Other parties are: Dissident Fascists (two districts), Democratic Liberals, friendly or neutral towards Fascism (nine districts), Democratic Liberals in the opposition (eight), Catholic Populars (15, or the whole of the districts), small agricultural proprietors and farmers (four), Republicans (12), Democratic Socialists (15), official Muscovite Socialists (13), Communists (14), Independents (five), Social Democrats (five). Among the seven local lists, the only worth mentioning are the Sardinian Party and the Slav-German Party.

The public interest in the electoral contest is, however, not very lively, perhaps in consequence of the absolute certainty of the victory of the Party in power. In economic circles, interest is centring around Stock Exchange quotations. There is developing, on the Italian bourses, a boom comparable in extent, if not as yet in violence, to the famous boom of 1905-6, when the motor-car securities went up from day to day in a frantic manner.

Almost all classes of securities shared in the rise; but textiles, navigation, land and housing and electrical companies were easily first. The rise is explained, by professionals with a theoretical turn of mind, as a belated attempt of security quotations to adjust themselves to the depreciation of the lira. A great many securities were quoted, until recently, at prices not much higher than prewar level. Political uncertainty, confiscatory taxation, and fear of Bolshevism co-operated to keep quotations down. As the economic and political horizon seems to-day clearer, values are bound to rise until equilibrium with the general price level is reached. There is much to say in favour of this theory; but there is the risk that the rise is too indiscriminately affecting both old securities representing gold-lira investments and new securities, with depreciated lira investments and water at the back of them.

New economic and social legislation has been forthcoming during the month. A decree of December 15, 1923, published in the *Gazzetta Ufficiale* of February 2, 1924, creates a National Credit Institute for Italian work in foreign countries. Emigration is on the increase again: 400,000 in 1923, with an increase of 93,000 over 1921 and 104 over 1922. Of this number, 178,000 emigrated to transatlantic countries, 94,000 to Argentina, 58,000

to United States, 15,000 to Brazil, 6,000 to Canada, 2,800 to Uruguay, 1,150 to Australia, 1,100 to Central America. While in 1922 and previous years the greatest number were going to U.S., restrictive legislation diverted emigration currents to South America. The new Institute aims at financing Italian emigrants abroad, their industrial enterprises, colonisation plans, co-operative societies, &c. The Institute will be a semi-public bank, financed by savings banks and public insurance offices, and will cater for emigrants' savings. The State will nominate a part of the directors and guarantee a minimum interest of 3.50 per cent. on debentures issued by the institute, and a minimum dividend of 4.50 per cent. on share capital.

More interesting to the general public is a decree of February 21<sup>st</sup> on the housing problem. While the decree of January 7, 1923, declared that rents would be freely discussed between proprietors and tenants; and, in case of disagreement, allowed rents to be fixed up to June 30, 1926, by Arbitration Commissions, the new decree adds that *Prefets* – *i.e.*, representatives of the Central Government in Provinces, have the authority to seize all vacant houses which the proprietor has not seen fit to let within a month after notice has been given. The *Prefet* will let the apartment to houseless people, according to needs and circumstances. Rents will be fixed by Arbitration Commissions. The requisition right applies to old vacant houses, and also to new houses which have been declared fit for habitation before October 27, 1922. Old regulated rents were much lower than free rents for vacant or new houses – frequently only one-fifth. The new decree aims at equalising the two types of rent; but it is uncertain if it will succeed in lowering permanently rents of new houses to the regulated level of old ones; for who will build new houses now the fear is abroad of being obliged to let them under cost?

Workmen's organisations (trade unions) are much concerned about a legislative decree, dated January 24, 1924, which subjects them to the local representative (*Prefet*) of the Central Government. Workmen's organisations are defined as those which are maintained by the working-men's contributions. If the "*Prefet*" supposes that the funds of trade unions are not spent in the interest and for the economic or moral benefit of workers, he can make inquiries, dissolve managing councils, dismiss presidents and secretaries, and entrust assets and management to an official commissioner. The commissioner, within the maximum term of a year, is bound to make a report. On the basis of this report the *Prefet* can restore the old officers, prolong up to another year the receivership, or dissolve the trade union and distribute assets among associates or hand them over to another institution with purposes akin to those which the dissolved organisation pur-

ported to possess. A few days ago the decree was put into force for the first time by the Prefet of Rome, who instituted inquiries into the management of the Agricultural Workers' Federation – *i.e.*, the national organisation of Agricultural Workers' Trade Unions. It appears that the federation had made savings out of past years' contributions. As 1923 and 1924 are bad years for organisations of its political colour (Socialist), managers were using past savings for keeping alive the federation, whose membership was dwindling and whose remaining members were unwilling to pay. It seems that an inquiry will be started by the Prefet about the legality of using reserve funds towards defraying present expenses.

## 118.

## ITALY

MINISTERS ON FINANCE AND BANKING – DEBT INCREASE CHECKED –  
FOREIGN EXCHANGES – BANKING FIGURES

*From our Correspondent*

Turin, February 5

Important speeches were delivered, on the eve of the general elections, by two financial leaders, Signor De Stefani, Finance Minister, and Signor Stringher, Director-General of the Bank of Italy.

The former's speech was marked by the somewhat unexpected declaration that the financial year will close without any new internal debt: so we have improved from 11,864 million lire of new internal debt in 1920-21, to 6,283 in 1921-22, 2,265 in 1922-23, to nothing in 1923-24. This declaration goes a long way towards explaining the firmness of stock markets. While the sum total of internal debts is stationary, its composition is changing. The Treasury issued from July 1, 1923, to February 29, 1924, a sum of 2,704 million lire nine-years and 25-years' bonds, and has repaid 2,309 million lire of short-dated bills from three months to five years, which were falling due.

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118. April 12, 1924, pp. 787-788. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Speeches by signors De Stefani and Stringher. No more internal debts. Indexes of bettering budget situation. Foreign exchange fluctuations reduced. Inflation in banking situations", dated "Turin, February 5, 1924", is kept in the Einaudi archives.



"No new internal debts" is not technically equivalent to a declaration of a Budget equilibrium, which external debts toward Great Britain and United States may gravely imperil. At the present rate of exchange, and at 5 per cent. interest, the sum annually required for the bare interest service of the external debt would probably reach 5,000 million lire, an unbearable burden for which neither of the two creditor nations will presumably ask. For a complete budgetary equilibrium, from the British point of view, are perhaps wanting also the means for paying sums left over by previous financial years, of which the true value is not completely known.

The position of public finance is, however, sound. Italy can face the future without uncertainty as to how to make both ends meet. Some important problems remain to be solved; but they can be viewed with equanimity, as we are on a firm basis.

The Finance Minister also indicated that the proportion between "permanent" and "total" tax income is increasing: from 79.68 per cent. in the second half of 1922 to 87.03 per cent. in the first half of 1924. So we are less at the mercy of extraordinary sources of tax revenue. He also showed that the number of *new* industrial, commercial, and professional taxpayers was 39,813 in 1921, 47,822 in 1922, and 107,909 in 1923. The taxing-net is filling with new fishes, so that the burden is more equally distributed. Sales of war stores, which gave 1,611 million lire in 1920-21, 1,186 million in 1921-22, and 956 million in 1922-23, will yield only 200 million lire in 1923-24. The Budget is now almost free from this extraordinary non-tax revenue. The State railway deficit fell from 1,258 million in 1921-22 to 906 million in 1922-23, and to less than 374 million in the current financial year, and is estimated at 110 million lire for 1924-25, including in the latter figure the deficit of new provinces hitherto excluded. The total number of civil and military State servants has been lowered, between July 1, 1923, and January 1, 1924, from 509,145 to 477,028, and their total salaries and wages from 4,859 to 4,562 million lire, to which will be added, next year, 65 millions saved by new system of pensions to retired servants.

Signor Stringher dwelt more on monetary and banking subjects. The rates of foreign exchanges in 1923 were characterised by more restricted fluctuations:

Rates on:	1922	1923
New York:		
Maximum .....	18.38	19.35
Average .....	21.20	21.74
Minimum .....	25.96	23.83

London:

Maximum .....	81.01	90.18
Average .....	93.83	99.80
Minimum .....	115.46	108.82

Whether the two leaders are aiming only at stabilisation, or also at revaluation of the lira, is not wholly clear. Perhaps their policy is not definitely settled. They keep revaluation in the background, and say that it will come gradually; but they assert emphatically that stabilisation is the most urgent necessity. How one aim is to coincide with the other is not stated.

Banks of issue were busier than ever in 1923. The yearly averages for the Bank of Italy were as follows:

(Millions of Lire)

	Discounts	Loans and Advances	Total
1914 .....	580.3	125.9	706.2
1919 .....	862.5	868.2	1,730.7
1920 .....	2,432.6	2,213.4	4,747.0
1921 .....	3,189.3	2,662.4	5,851.7
1922 .....	4,440.7	3,043.0	7,483.7
1923 .....	4,954.4	2,462.6	7,417.0
December 31, 1923 .....	6,020.4	3,324.2	9,344.6

The figure for December 31, 1923, is swollen by the inclusion of 2,564.6 million lire of credit granted to the Consortium for the salvage of Ansaldo concerns, Banca Italiana di Sconto, and Banco di Roma. This is a blot on a banking position which had been somewhat inflated since 1919. Industrial concerns and banking societies are rediscounting at the banks of issue in a measure which previously would have been deemed perilous, and for sums much higher than would be warranted by the devaluation of the lira. Signor Stringher seems to feel that the mass of banking paper will come to a good end. From the net profits of the Bank of Italy a sum of 100 million lire was deducted in 1923 to face losses on the said 2,564.6 million lire granted for salvage purposes. An additional sum of 391.8 million lire was deducted to the same end from the extraordinary tax on excess issue, which should have been paid into the reserves against probable losses. The liquidation of the salvage consortium ought to be finished at December 31, 1932. A Royal decree of January 1, 1924, has formally forbidden the consortium to discount other paper. The State will no more come to the aid – through the agency of banks of issue – of falling concerns.

## 119.

## ITALY

## BANKING AFFAIRS — STOCK EXCHANGE BOOM

*From our Correspondent*

Turin, May 12

Banking affairs have been prominent during the past month. In mid-April a sudden burst of buying sent up the prices of Credito Italiano's shares from about 900 lire to 1,100 lire and more. It appears that a competition in buying had been started between the board of directors of the bank and a group of industrial Turinese magnates. A generation of rivals of the late German industrial leader, Herr Stinnes, is growing up in Italy. The Turinese leaders are Senator Agnelli, chief of the Fiat motor-car company, Signor Gualino, head of a gigantic artificial silk concern, with 600 million lire capitalisation, and Signor Abegg, a leading cotton man. They complained of credit difficulties, and strove to obtain the majority of the shares in Credito Italiano, so as to be able to control this great fountain of credit, with over 4,000 million lire deposits and current accounts. Five years ago, Credito Italiano and Banca Commerciale Italiana were made the object of a similar attack. On that occasion the banks saved their independence by the device of two financial holding companies, to which were entrusted the majority of shares of the banks, and which were ultimately controlled by bank directors. Signor Nitti, then Premier, induced, by moral pressure and promise of credit facilities, the two attacking groups to sell their shares at a profit to the holding companies. It appears that the Banca Commerciale Italiana has never lost control of its holding company, so that directors are sure of a majority in the shareholders' annual meetings. Not so with the Credito Italiano directors, who, having persuaded themselves that all peril of losing control of their bank was past, let their shares be freely negotiated on the market, with the result that in the first ten days of April directors awoke to the painful truth that the Turinese group had almost gained control of a majority of shares. At this point began a fierce struggle between bank directors and would-be conquerors of the bank; of which

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119. May 24, 1924, p. 1057. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.



few particulars are known. The ultimate result was that the Government, by a decree of April 15, suspended the right of buyers of banking shares to call on sellers for immediate surrender of shares sold for end-of-month settlement. This right, called "*diritto di sconto*", was invented in 1907 to oblige speculative bears, who had sold securities for end-of-month settlement in the hope of covering themselves before settlement at a lower price, to buy precipitately the securities of which immediate surrender was called. In the present case, however, buyers of Credito Italiano shares who hoped to get, in virtue of the "*diritto di sconto*", immediate possession of bought shares, were prevented, by the suspension of the same right, from obtaining material possession before May 2<sup>nd</sup>. In the meantime, directors of the Credito Italiano called for an extraordinary meeting of shareholders at April 28<sup>th</sup>. At this meeting the old directors easily persuaded the assembly to vote an increase of capital from 300 to 400 million lire, of which 50 were to be offered to shareholders and 50 were left at the disposal of the board of directors. It seems that the Turinese group, when they saw that their manoeuvre had failed, sold their shares with a good profit to a reconstituted holding company, and received a new promise of credit facilities. All is well which ends well, but this strange episode of a banking fight gives an instructive glimpse into methods of obtaining credit facilities. Credito Italiano is a most conservative and trusted bank, and we can be sure that credit facilities will be given to the Turinese group with the utmost care for the interest of depositors. In future, bank directors will take great care not to let a similar attack develop.

While this drama was being acted in Milan and Turin, another banking drama was recited before the Senate acting as the High Court of Justice. Two Senators and many banking men, all connected with the late Banca Italiana di Sconto, were tried before the High Court of Justice under the accusation of having issued in 1921 a false balance-sheet, with the purpose of distributing to shareholders and among themselves profits not truly gained. By virtue of the Statute of the Kingdom, when a Senator is accused of some criminal offence, he and all his accomplices are not sent to ordinary Courts of Justice, but appear before the Senate as High Court of Justice. Senator Marconi, who was president of the Banca Italiana di Sconto, did not appear, because he was found, in the preliminary stage of the proceeding, entirely innocent and unaware of balance-sheet malpractices conducted in his absence. After a week of abundant eloquence proceedings were suspended, as the High Court of Justice resolved to call an investigation into the true state of the Banca Italiana di Sconto at December 31, 1921, so as to ascertain whether the Banca was truly in default, or whether,

with a little courage, the bank could have been saved. The affair has thus, from being a trial of the men responsible for the fateful end of the Banca di Sconto, been turned into an investigation against past Ministers (Bonomi and Belotti), who dared not save the bank.

Amid these banking turmoils Italian Stock Exchanges continue to be highly optimistic. The campaign for the so-called valorisation of securities in consequence of the depreciation of the lira is as yet in full swing. For a week, towards the end of April, it appeared as if the upward movement had come to stay; banks endeavoured to restrict prolongations, and increased very strongly the charges for speculative accounts up to 7, 7½, and even 8 per cent., but all in vain. Money is too abundant, and is anxiously seeking investment. *Bona fide* investors are sending up prices of 5 and 3.50 per cent. Consols, the first reaching 99 and the second 87. What a long way from the prices of 67 and 62 quoted in 1920! The Treasury is planning, it is said, an issue of nine-year bonds at 4¾ per cent., and they will find an easy market.

General commodity prices and the cost of living are being maintained at a high level.

## 120.

### ITALY

#### POLITICS AND THE STOCK EXCHANGE FEVER —

#### PLENTY OF MONEY — NEW ISSUES — UNEMPLOYMENT — FOREIGN TRADE

*From our Correspondent*

Turin, June 21

Political events have been prominent since the meeting of the new Legislature. As my letters relate to economic affairs, I will only note that the lurid Matteotti affair acted as a check on the frantic upward movement which was going on in Italian Stock Exchanges. If we take as basis 100

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120. June 28, 1924, pp. 1304-1305. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. Politics and stock exchange fever. Plenty of money. New issues. Unemployment. Bankruptcies. Foreign trade. Industrial situation's indices", dated "Turin, June 21, 1924", is kept in the Einaudi archives.

the quotations for December, 1918, the Bachi index number of State securities, which was as low as 73.8 in September, 1920, reached 100.2 in January, 1924, 101.3 in February, 103.0 in March, 103.9 in April, and 109.5 in May, 1924. That is a general average; 5 per cent. consols, which at a time in 1920 went as low as 67, touched in early June 102.50.

Yesterday (June 20<sup>th</sup>) they fell to 98.85. But the wildest fluctuations took place in "variable dividend" shares. Bachi's general index number (basis 100 at December, 1918) touched bottom in April, 1922, at 56.45. At the end of 1922 the index was 72.08; at the end of 1923, 85.67. In 1924 every month, save April, saw a rise to 89.79 in January, 96.18 in February, 101.70 in March, 100.51 in April, 114.34 in May.

The leaders in the upward movement were easily the silk shares, especially artificial silk. At a time, the greatest artificial silk concern, Snia-Viscosa, with a paid capital of 600 millions lire, was capitalised at 1,500 millions lire; the next one in importance, the Soie de Châtillon Company, with a paid capital of 75 millions, at 675 millions lire. Following these spectacular rises, operators multiplied; crowds congregated every day on the floors and outside Stock Exchanges; fortunes were made. Stock Exchange men were all Fascists; no more strikes, social peace, abundant work, State Budget in equilibrium, no more prosecution against capital. Everyone was persuaded that Bourse quotations would rise indefinitely. On this excited state of mind the Matteotti affair acted like a bombshell. Something like a stampede took place. Snia receded from 504 to 400, Châtillon from 900 to 680, Fiat from 754 to 565, Bank of Italy from 1,950 to 1,625. Perhaps nothing more tragic will happen save losses suffered by over-enthusiastic bulls. Money is abundant and is anxiously seeking employment. After many years, during which the State absorbed all available savings, the situation has wholly changed. Public internal debt has decreased from 95.544 millions lire at June 30, 1923, to 93.655 millions at April 30, 1924. No wonder that the market situation was favourable to buoyancy and to new issues. In 1923 new issues of shares by joint stock companies, less decreases of capital or winding-up of companies, amounted to 2.131 million lire. In the first five months of 1924 the figure went up to 1978.8 million lire, against 515.2 in the corresponding months of 1923.

As far as can be guessed by the belated unemployment figures, the industrial situation seems better than a year ago. At February 28, 1923, unemployed were 327,892; they decreased to a minimum of 178,612 at August 31, 1923; seasonably rising to 258,580 at end of December, 1923, to 280,765 at January 31<sup>st</sup>, and decreasing to 259,360 at February 29, 1924.



Foreign trade in the months from January to April, 1924, compared as follows with the corresponding period of 1922 and 1923 (in millions of lire):

	1922	1923	1924	Difference 1922 & 1924	Between 1923 & 1924
Imports .....	4,837.7	5,525.5	5,815.8	+ 978.1	+ 290.3
Exports .....	2,744.4	3,143.5	4,357.8	+ 1,613.4	+ 1,214.3
Excess of imports over exports .....	2,093.3	2,382.0	1,458.0	- 635.3	- 924.0

The excess of imports is decreasing, thanks principally to more abundant exports, the most notable increases being in silk and artificial silk (from 850.1 million lire in 1923 to 1,077.3 million lire in 1924), fruits and vegetables (249.9 to 373.4), flour, macaroni, pulses, &c. (56.1 to 239.7), milk and cheese (71.8 to 136.4), meat, eggs (59.8 to 146.4), cotton goods (448.8 to 648.8), motor-cars and other vehicles (91.5 to 120.6), wool, &c. (73.0 to 129.8), hides (105.4 to 158.8).

The general trend is towards increasing imports of raw materials, machinery for industry, exports of manufactured goods, increasing at the same time at a more rapid pace.

An index of industrial conditions is the increase in the consumption of electric power.

## 121.

### ITALY

#### POLITICAL UNEASINESS -

#### THE SUMMER SLUMP IN STOCK EXCHANGE QUOTATIONS -

#### BIG CAPITAL INCREASES - POOR WHEAT CROP

#### *From our Correspondent*

Turin, September 2

July and August were troublous months in politics and economics for Italy. In politics, there is not in sight a ray of hope of a solution of the Mat-

121. September 13, 1924, pp. 421-422. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is probable according to Graham Hutton. It is also dated Turin.

teotti crisis. Two decrees which suppress the liberty of the Press, giving to the local agents of the Government (prefetti) the power to prohibit future issues of obnoxious newspapers, have not quieted the unrest of public opinion, which is bent on obtaining justice against all guilty parties. The parliamentary opposition is determined not to return to the House after the autumn recess, unless conditions of absolute liberty are restored to all parties. Fascism in power, however sure of its two-thirds majority, is planning constitutional reforms; universal suffrage is, it seems, to be substituted by a sort of professional representation, where trade, industry, agriculture, liberal professions groupings will have a voice.

All these may be simply rumours, which keep the political world uneasy guessing the future. In the business world unrest also prevails. In a previous letter I gave figures illustrating the stock exchange fever, which culminated at the end of May. Recently the fever has subsided. Bachi's general index number for State securities (taking as the basis 100 the quotations for December, 1918), which had increased continuously from 96.4 in December, 1923, to 109.5 in May, 1924, fell to 106.9 in June and 105.8 in July. Quotations for the end of August do not show a noticeable advance. As usual, fluctuations were greater for "variable dividend" securities. From 85.67 in December, 1923, these had advanced to 114.34 in May, 1924; in June they fell to 110.82, in July to 107.62. Navigation, hemp and flax, cotton, motor-cars, sugar, land and houses were foremost in the fall. Operators were obliged to liquidate speculative holdings at a great loss. The end of August account saw many forced sales on the stock exchanges. Bull positions were almost cleared out, and new engagements reduced almost to nothing. If the political uncertainty were not repressing any sustained speculative endeavour, the autumn months would probably see another frantic rise.

Banks and financial circles are interested in the rise, in view of the big increases of capital which are in contemplation. In the first half of 1924 there were constituted 845 new joint-stock companies with a capital of 510.4 million lire, and 650 old companies increased their capital by 2,389.9 million lire. Only 246 companies with a capital of 288.9 million lire were wound up; 187 reduced their capital by 259.5 million lire. In the aggregate the number of joint stock companies rose by 583 to 8,335; and their capital by 2,289.4 million lire to 26,111 million lire. The movement has not spent itself; perhaps a total of 1,000 million lire increases of capital are planned at present. A very big figure, which is an indication of a great abundance of new capital in the country. The balance-sheets of three foremost Italian banks (Banca Commerciale Italiana, Credito Italiano, and Ban-

co di Roma) have increased their liabilities from 13,925.3 to 14,963.1 million lire between February 29 and June 30. The increase is wholly due to increased deposits.

The black spot in our economic situation is the indifferent agricultural crop prospects. The wheat yield, which was 6.1 million tons last year, is calculated for 1924 at only 4.8 million tons, a big decrease, which will cause a corresponding increase of wheat imports. In part, the low yield is due to diminished sowings – 4,550,000 hectares in 1923 against 4,743,640 in 1922. Agriculturists were discouraged last year by the low prices quoted for internal wheat at sowing time. Owing to the abundant internal crops, mills were able to buy from agriculturists at prices much below those ruling in the international markets. Today, owing to scarcity of yield, internal prices are higher: 110-120 lire per 100 kg, against 85 last year. But the international level is higher still – perhaps from 130 to 140 lire at Genoa. The prospect of imports of from 2.5 to 3 million tons at those prices is already hardening foreign exchanges.

## 122.

### ITALY'S ECONOMIC POSITION

*By Luigi Einaudi*

The financial year 1923-24 closed with a deficit of 623 million lire, against an estimate of 2,616 million lire. In the first three months of the current year the yield of taxation has continued to expand. This increasing ability of taxpayers to pay has made the condition of the exchequer almost affluent, the effective income in the three months in question (July to September, 1924) being 3,894.6 million lire, against an effective expenditure of 3,622.7 million lire. These figures do not infer that the State budget has reached equilibrium, as certain disbursements may have merely been postponed. But they have an important meaning for the money market, for while the public exchequer, with its issues of bonds and exchequer bills, absorbed, in the financial year 1921-1922, 7,040 million lire from the private savings, and in 1922-23, 3,237 millions, in the financial year 1923-24

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122. November 29, 1924, pp. 38-39. The article, signed, was published in the "Monthly Supplement" of *The Economist*.



bills and bonds up to 1,087 million lire were repaid, and in the three months from July 1<sup>st</sup> to September 30<sup>th</sup> the internal debt diminished further by 567 million lire.

This is, perhaps, the dominating factor in the present economic situation of Italy: the State is no more the greatest, and almost the only, consumer of current savings; it is refunding to the money market part of the sums previously received. Private savings, which found, in the war and after war years, an easy harbour in the continuous State issues, are obliged to find employment in agriculture, industry, and trade. The impetus which industry received during the war from State war demands was spent in 1920; after two years of uncertainty and social commotion, 1923 saw a return of abundant money due to the new factor in the capital situation.

Another potent element in economic progress is the increasing stabilisation of the lira. The increasing fixity of the gold value of the national currency, and the decreasing importance (owing to death or passage to productive occupations) of classes interested in the appreciation of the lira have induced many people to take heart of grace. The fear of Bolshevism, meanwhile, has vanished; the values of land, houses, and shares in joint-stock companies have risen in proportion. The average price of joint-stock company shares rose from 100 in April, 1922 – perhaps the worst of all months on the Italian bourses owing to the prevalent Bolshevik fever – to 213.6 in October, 1924. This movement of capital prices put millions in the pockets of investors and speculators.

Savings deposits, which amounted to 28,126 million lire at June 30, 1922, increased to 32,333 millions at June 30, 1923, and to 35,000 in June, 1924. Net investments in joint-stock companies, which were 955 million lire in the year 1922, rose to 2,088 millions in 1923, and touched 2,300 millions in the first six months of 1924. Failures unfortunately increased, also, from a monthly average of 47 in 1918 to 49 in 1919, 53 in 1920, 149 in 1921, 305 in 1922, 474 in 1923, and 612 in the first nine months of 1924. In order to appreciate this movement, one should remember that in the war years failures were almost non-existent, and that the present figures are a return to the old monthly average of 616 for 1913, and represent, probably, a more true index of the necessary elimination of the unfit in the economic struggle.

As an instance of the effects of the growing influx of new savings in the industry, we may quote a few figures relating to the electrical industry. In the year 1898, the acting KW. were 87,000; in 1908, KW. 426,000; in 1918, KW. 1,240,000. At present there are in progress such a number of new installations, that the KW. acting in 1928 may be estimated, even ex-

cluding future additions, at 2,341,000. The consumption, from KW. 180,000,000 in the year 1898, rose to 1,000,000,000 in 1908, to 2,300,000,000 in 1915, to 4,120,000,000 in 1917-18, decreased to 3,830,000,000 in 1919-20 owing to social unrest, and may be estimated at 5,500,000,000 in the present year. The capital invested from 200 million lire in 1898, rose to 3,000 millions in 1924.

Only for agriculture we have up-to-date statistics of production. The year 1924 was unfortunate; 4.64 millions tons of wheat were produced, against 6.12 in 1923, and 7 millions of vine grapes, against 8.3. A partial compensation can be sought in the increase from 1.34 to 1.63 million tons in the yield of mulberry leaves (cocoons 42,500 to 49,500 tons), from 0.52 to 0.56 in rice, and from 2.26 to 2.6 in maize production. Higher prices have largely compensated the agriculturist for the smaller production, which, compared with the pre-war average of 1909-1914, is not so unsatisfactory as may be judged by comparison with 1923, which was an exceptionally bountiful year; the percentage of 1924 production on the 1909-1914 average being 94 per cent. for wheat, 98 per cent. for vine grapes, 150 per cent. for mulberry leaves (118 per cent. for cocoons), 114 per cent. for rice, and 101 per cent. for maize.

Current figures of industrial production may be had only for goods subject to excise, beer production rising from 1,187,508 hectolitres in the financial year 1922-1923 to 1,466,507 in 1923-1924; coffee substitutes from 7,804.4 to 8,351.8 tons; sugar from 270,279.4 to 318,987.3 tons; illuminating gas from 259.1 to 292.6 million cubic metres: electrical power consumed from 4,721.4 to 5,390.5 kilowatt-hours. Figures for metallurgical production are more belated; coke pig-iron produced in 1923 amounted to 218,039 tons, as against 140,211 in 1922; electrical-made coke to 15,704 tons, against 14,401; homogeneous iron and steel to 1,141,761 tons, against 981,419; lead to 17,131 tons, against 10,709; zinc to 3,684 tons, against 3,082.

The foreign trade figures show that Italy is gaining ground in outside markets as regards agricultural products and the output of the textile, rubber and motor-car industries. These are the most progressive industries in our country. I doubt very much, however, whether the voice of these industries, which should be mostly a Free Trade voice, will be able to make itself heard, against the potent Protectionist interests of the heavy iron and steel industries, in the negotiations for the conclusion of a Treaty of commerce with Germany, a Treaty which will fix the character of other most important commercial treaties to follow.

It is impossible to make an exact estimate of the real condition of the

working classes. Statistics of wages are too old to be of much use. According to Mortara's index, wages increased from 100 in 1913-1914 to 480 in 1923, keeping approximately in touch with the lessening purchasing power of the lira. If we take 100 as the cost of living for a working family of 5 (2 adults and 3 children) in Turin in the first six months of 1914, we have the following minima and maxima after July 1, 1920:

	Minimum	Maximum
1920 .....	July ..... 384.4	December ..... 465.6
1921 .....	" ..... 404.7	March ..... 472.2
1922 .....	April ..... 424.5	January ..... 465.6
1923 .....	March ..... 435.8	December ..... 466.7
1924 .....	June ..... 462.1	October ..... 492.9

The maximum in the cost of living after August 1, 1924, was reached in October, 1924. This ominous feature is counteracted by conditions of more continuous employment. The number of unemployed, which had reached its maximum of 606,819 in January, 1922, and oscillated in 1923 between a maximum of 391,974 in January, and a minimum of 178,912 in August, was reduced in 1924 to a maximum of 280,775 in January, and to a minimum of 117,963 in July (in Augustus, 118,955). Emigration is increasing, in spite of American restrictions, the excess of emigrants over returned men being 165,172 in 1921, 188,102 in 1922, 284,475 in 1923, and 163,322 in the first seven months of 1924.

On the whole, it seems that more continuous employment, and probably the larger number of members of the family which find employment, permits a higher level of living to the majority of workers and their dependants. The *per capita* consumption of wine, in a number of the most populous cities, increased from 40 litres in 1913 to 50 in 1923; of beer from 2.19 to 3.19 litres; of edible oils from 19 to 29 kilograms; of fresh meat from 14 to 21 kilograms; of salted meat from 4 to 19 kilograms; of sugar from 5.31 to 7.72 kilograms; of coffee from 0.615 to 1.263 kilograms; of tobacco from 0.615 to 0.709 kilograms; while the number of lamps from electrical illumination increased from 0.27 to 0.48. These indices of increasing well-being go far to justify the assumption that, in spite of political uncertainties, and the arduous struggle for a return to a normal condition of public and social life, the foundations of Italian economics are strong, and the outlook for the future is promising.



## 123.

## ITALY

THE DIRECTION OF FOREIGN TRADE –  
 REVIVAL OF TRADE UNIONS' MOVEMENT –  
 FASCIST CORPORATIONS AND CLASS FEDERATIONS

*From our Correspondent*

Turin, November 30

It is very difficult, on the basis of published statistics, to analyse the direction of Italian foreign trade. Only for a few States are the figures up to date. Imports from leading countries (in millions of lire) are shown below:

	Imports		From Jan. 1 to Aug. 31, 1924
	1913	1923	
Austria-Hungary .....	264.1	—	—
Successor States:			
Austria .....	—	325.6	275.5
Czecho-Slovakia .....	—	158.5	146.9
Serbo-Croats-Slovene Kingdom .....	—	489.3	356.2
France .....	280.9	1,322.6	922.8
Germany .....	612.5	1,299.1	946.0
Great Britain .....	601.1	2,189.7	1,389.2
Switzerland .....	88.5	375.8	243.5
Argentina .....	173.8	1,053.0	707.5
United States .....	505.6	4,619.5	3,183.8
Total of the principal States .....	2,526.5	11,833.1	8,171.4
Other States .....	1,111.3	5,365.4	4,229.9
General total .....	3,637.8	17,198.5	12,401.3

The increase of the total import value figure is roughly in the ratio of 1 to 4.5, which is the ratio of the depreciation of the lira in terms of gold. Two-thirds of the total trade is to-day, as in 1913, transacted with the seven principal States, or their successors, but the relative importance of the sin-

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123. December 13, 1924, p. 964. The article, unsigned, was published in the section: "Overseas Correspondence". Its attribution to Luigi Einaudi is certain because the original manuscript, entitled "Italy. The direction of Italian foreign trade. Tendency to a return to old pre-war positions. Revival of Trade Unions' movement. Fascist corporations and class federations", dated "Turin, November 30, 1924", is kept in the Einaudi archives.

gle States is changed. The United States, which held the third place in 1913, is to-day easily first; Great Britain has gained the second place; and France became third. It is, however, probable that Germany in 1924 will reconquer a part of the lost ground. Preliminary conversations for a commercial treaty have taken place, and on December 4<sup>th</sup> the official delegates of the two countries will meet in Rome.

The 1923 exports of the three successor States to Italy, judged by values, were four or five times those of the whole of Austria-Hungary in 1913. The new Serb Kingdom is one of the most promising fields of trade for Italy. The following table shows Italy's principal customers:

	Exports (in Millions of Lire)		
	1913	1923	From Jan. 1 to Aug. 31, 1924
Austria-Hungary .....	218.8	—	—
Successor States:			
Austria .....	—	335.2	415.6
Czecho-Slovakia .....	—	67.2	79.5
Serbo-Croats-Slovene Kingdom .....	—	336.0	233.6
France .....	230.9	1,601.2	1,140.4
Germany .....	338	692.9	944.8
Great Britain .....	261.1	1,200.2	889.0
Switzerland .....	248.6	1,201.4	970.3
Argentina .....	190.3	740.7	491.6
United States .....	257.7	1,512.5	677.5
Total of the principal States .....	1,745.7	7,687.3	5,842.3
Other States .....	758.2	3,372.2	2,696.9
General total .....	2,503.9	11,059.5	8,539.2

Here France steps into the first place; United States comes next; while Great Britain and Switzerland maintain their old positions. But here, again, Germany promise to return in the current year to her old position as the best market for our agricultural, silk, and other textile goods.

Perhaps the most significant economic event in the month of November was the revival of the working-class movement. The 1924 total of strikes and working days lost by strikers will be much over that for 1923. The atmosphere, above all, is changed, and workers are no more prone to submit to the omnipotent influence of the Fascist Corporations. These held last week their Congress at Rome, preaching, as usual, the gospel of harmony between capital and labour. It was, however, a significant indication of the new spirit that the Corporations denounced fiercely those captains of industry who were obdurate enough not to accept all the proposals made on behalf of workers.

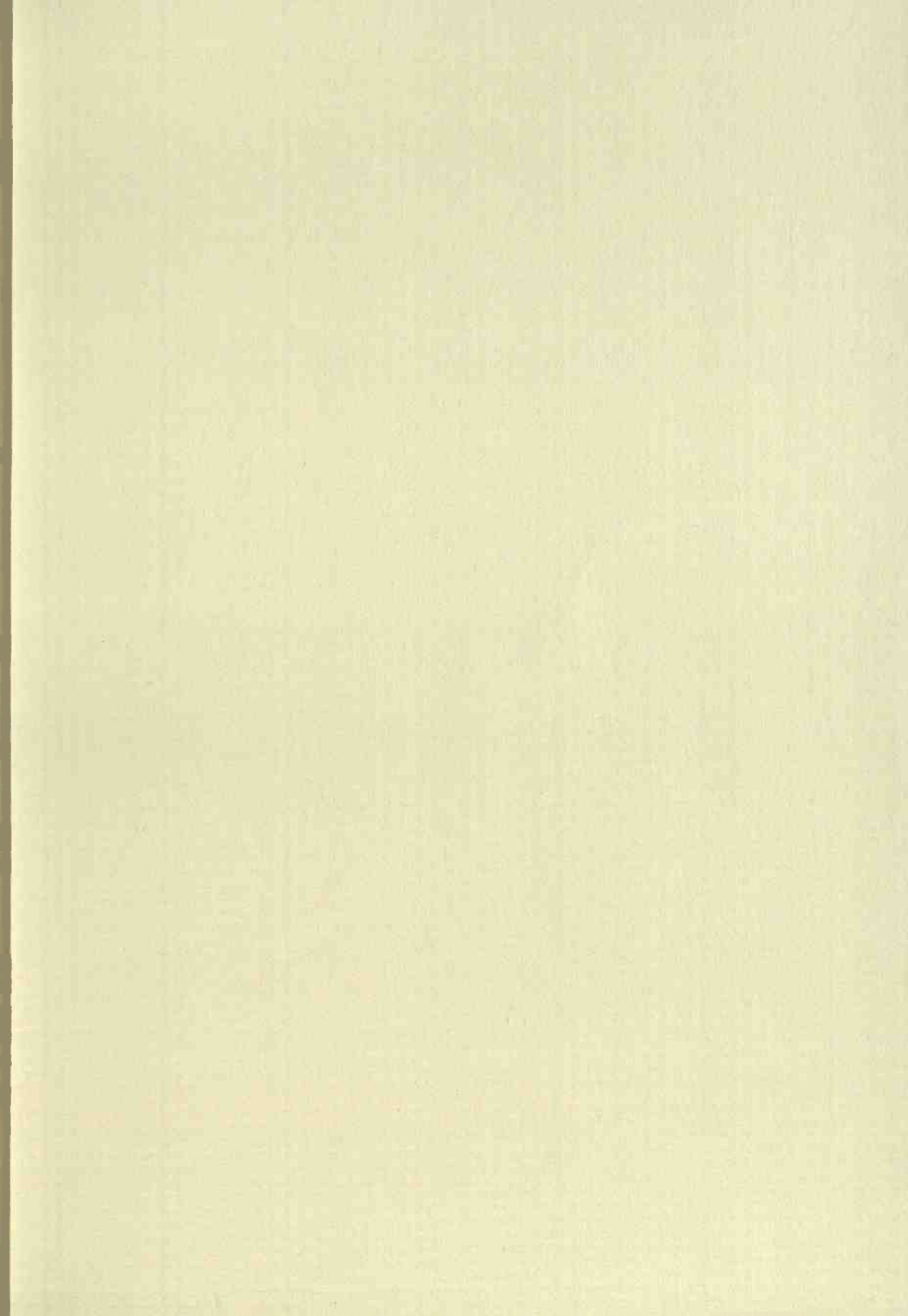
The great majority of workers suspects organisations which are not simply for Labour against Capital, and is true in its allegiance to the old Federations. Fascist Trade Unions are called "Corporations" perhaps as

in reminder of the mediæval Corporations, in which all classes of capitalists and workers were amalgamated; while old Trade Unions, sympathisers with Socialism, maintain their old name "Federations", and are directed by the "General Labour Confederation". At Milan, which was said to be a stronghold of the Fascist Corporations, when the latter signed a new wages contract in metallurgical industry, the men flatly refused to accept it. At a referendum, almost the entire body of workers ranged themselves under the old banner of the Federation. And when entrepreneur organisations, disdaining to take note of the referendum, maintained that the wages contract signed between themselves and the Fascist Corporations was to be observed, the men struck for a day in proportions which ranged from 50 to 100 per cent. of the number employed in various establishments.

After a lapse of two years, a Congress of the Trade Unions adhering to the General Labour Confederations will shortly be held. While in November and December, 1922, there was much wild talk about D'Aragona and Buozzi, and other leaders of the workers' movement going into the Mussolini Cabinet, to-day the only debated question is whether the Trade Union Organisation will be captured by Communists or Marxian Socialists, or held, as at present, by the United Socialist Party, which is a sort of British Labourism, perhaps, with a greater tinge of pure politicians of the Turati and Treves type. Expectations favour a victory for the latter.







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